

**INTERNAL CONTROL SYSTEMS AND PERFORMANCE OF MICROFINANCE
INSTITUTIONS IN UGANDA: A CASE STUDY OF KABALE MUNICIPALITY**

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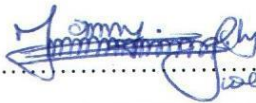
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DECLARATION

I, Nandaula Mwebe Lilian, Reg. No 2019/A/MBA/006/W, declare that this research dissertation entitled "The relationship between internal control systems and performance of microfinance institutions in Kabale Municipality" is my own original work. It has not been presented to any other institution for any academic award. Where other people's work has been used, it has been duly acknowledged.

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APPROVAL

We, the undersigned, certify that this research dissertation entitled, "The relationship between internal control systems and performance of microfinance institutions in Kabale Municipality" has been compiled under our supervision. We hereby approve it for examination leading to the award of a Master's Degree in Business Administration by Kabale University.

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DEDICATION

I dedicate this dissertation to my Grandmother, Mrs. Veronica Ganafa, My Aunt Mrs. Theresa Nakalanzi Ganafa, Uncle John Kalibala Kasinga and my children Mbabazi Mwebaze Ronald and Akonye John.

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It is always possible with God, even when it seems impossible for Man. Thanks, gratitude and honour go to the Almighty God for the spiritual, health and physical blessings over the last few years I have spent at Kabale University.

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LIST OF ABBREVIATIONS

COSO	Committee of Sponsoring Organizations of the Tread Way Commission
ICAEW	Institute of Chartered Accountants of England and Wales
ICS	Internal Control System
IMF	International Monetary Fund
MFIs	Microfinance Institutions
ROA	Return on Assets
SAPs	Structural Adjustments Programmes

ABSTRACT

This study investigated the relationship between internal control systems and performance of microfinance institutions in Kabale Municipality, South Western Uganda. The study was guided by specific objectives, that is, to examine the effect of control environment on performance of microfinance institutions; to examine the effect of risk assessment on performance of microfinance institutions; investigate the effect of monitoring activities on performance of microfinance institutions; and, to assess the effect of communication on performance of microfinance institutions in Kabale Municipality. The study employed a cross sectional survey design to explore information from different stakeholders in selected microfinance institutions at a given point in time. A sample size of 111 respondents was considered for the study, selected by simple random sampling and purposive sampling techniques. Data were collected through primary sources using structured questionnaires and interviews. Statistical Package for social Scientists, SPSS, Ver. 23 was used to analyse the data, and findings were presented in tables and charts. Findings revealed that risk assessment significantly affect performance of microfinance institutions in Kabale Municipality. However, control environment, monitoring activities and communication had an insignificant effect of performance of microfinance institutions. Only risk assessment significantly influences performance of these institutions. Generally, internal control system as a function affected performance of microfinance by 15 percent. In due regard, the study recommends that risk assessment be reinforced so as to continuously performance in microfinance institutions in Kabale Municipality. More so, other factors that have a strong bearing on the performance of MFIs need to be explored by future research.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This study is on the relationship between internal control systems and performance of microfinance institutions in Kabale Municipality, South Western Uganda. Over years, the value of internal control system has gained relevance not only for financial prudence but also accountability and overall performance of organisations (Inusah & Abdulai, 2015). Rafindadi and Olanrewaju (2019) describe internal control as precautionary measures in place to ensure appropriate record, and management of activities done in the firm. In this regard, internal controls are part of the overall internal control system that encompasses control activities, control environment, risk assessment, information and communication and monitoring and evaluation (Magala, 2018). Several scholars (Inusah & Abdulai, 2015; Rafindadi and Olanrewaju, 2019; Younas & Kassim, 2019), have continued to reflect that firms pursue internal control system as a watchdog for performance. In the view of Pina, Bachiller and Ripoll (2020), performance is the outcome realised by the organisation after accomplishment of its set tasks. They are goals and objectives expressed in financial and nonfinancial outcomes, realised by an organisation in a given period of time. Whereas almost all enterprises have focused on having an appropriate ICS, the majority have not used the system to attain desired performance. The relationship between ICS and performance remained less studied, especially for microfinance institutions. This was also evident in MFIs in Kabale Municipality, as expressed in this study.

This chapter presents the introduction to this study. It consists of background to the study, statement of the problem, purpose, objectives, research questions, study scope, significance and definition of terms and concepts of the study.

1.2 Background to the study

1.2.1 Historical background

World over, internal controls have been seen to be established in organizations to control the organization in as far as financial performance is concerned. Historically, internal controls in organizations have existed from ancient times. In Hellenistic Egypt, there was a dual administration with a set of bureaucrats charged with collecting taxes and another charged with supervision for purposes of internal controls. The history and evolution of the internal

controls in contemporary times have largely been influenced by events and developments in USA and the UK. The concept of internal control was first officially defined in 1949 by the American Institute of Accountants. Since then, the definition and concept of internal controls has been the subject of debate (Petrovits, Shakespeare & Shih, 2011).

COSO (2017) expresses that internal control systems is exercised in more developed countries like China and USA than in least developed countries, for instance, African countries, Uganda inclusive. Internal control systems are a tool used by management to effectively run an entity. It helps management through provision of reliable assurance over meeting the goals and objectives as it consists of specific policies and procedures towards achieving organisational goals and objectives. According to COSO, reasons for internal controls are to promote operational effectiveness and efficiency, reliable financial and administrative information, safeguard assets and records, encourage adherence to prescribed policies and compliance with regulatory agencies. The AMF Working Group (2017) looked at the components of internal controls as being control activities, control environment, risk assessment, information and communication and monitoring and evaluation. Whereas internal controls are thought to be the duty of accountants and auditors, it is actually management that has the primary responsibility for proper controls.

Whereas projects are crucial in successful economies, in recent years in Uganda, project failures have become a common practice due to poor internal control systems adopted. However, empirical research demonstrated that pressure for controls from a multitude of external and internal stakeholders is on an increase to cause adequate service delivery. This has placed top managers in a difficult position as they attempt to devise strategies that enable firms to survive and prosper in turbulent environment that require financial performance and effective stakeholder responsiveness. Under such situations difference between management and owners gets thinner and the independence of non-executive directors becomes obscured (Bryan & Lilien, 2015).

Micro-finance institutions have been the most important contributor to the Ugandan economy. The sector contributes to national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households by financing businesses that they run. The general perception is that enforcement of proper internal control systems always leads to improved financial performance. Nevertheless, available literature still points out that in spite of the elaborate system of controls in organizations, financial performance has been elusive in most of these

organizations (Kalyango, 2015). Microfinance institutions traditionally lent to medium and large enterprises which are judged to be creditworthy and tend to avoid doing business with poor micro enterprises because associated costs and risks were relatively high. Micro-finance Institutions have therefore become the main source of funding for micro enterprises in Africa and in other developing regions (Magala, 2018). Internal control has five key components; for the sake of this study it was limited to control environment as major component. Control environment embraces all other four key components of internal control as it sets tone for the organization and also influences consciousness of its employees (COSO, 2017).

1.2.2 Theoretical Background

The study utilised Control theory, Agency theory and Stewardship theory to explore internal control system and its influence on performance of Microfinance Institutions.

Control Theory: The control theory has been described as an interdisciplinary branch of engineering and mathematics that deals with dynamic systems with inputs. The external input to the system is the reference. When one or more output variables of a system need to follow a certain reference over time, the controller manipulates the system to obtain the desired effect on output of the system (Vijayakumar & Nagaraja, 2012). The objective of this theory is to calculate solutions for proper collective action from the controller that results into system stability. The system sets the set point and not oscillates it. According the proponents of this theory, it works hand in hand with financial intermediation theory as put forth by Gurley and Shaw (1960) which based on the theory of informational asymmetry and agency theory (Laudon & Laudon, 2011). This theory was adopted because Stakeholders in Microfinance institutions in Kabale Municipality labour to calculate solutions for proper collective action from the controller in an attempt to attain system stability necessary for attaining performance of the aforesaid MFIs.

Agency Theory: In management and economics, the agency theory explains various relationships and areas of self-interest in institutions. The theory usually explains how best to organize relationships in which one party is the principal determiner of the work and the other party is the agent who performs/makes decisions on behalf of the principal. Good auditing practices adopted by any organization usually enhance transparency in operations which project better financial performances (Snell, 2012). This is an assumption of agency theory which states that the agency cost leads to the design of audit practices that are applied by firms to mitigate any agency problems that may arise. Due to limited room for solving various challenges, the decisions of the internal audits affect stakeholders which in turn do not give

conclusive results. Agency theory hypothesizes that in the modern corporations like microfinance institutions, ownership is widely shared, managerial actions depart from those required to maximize shareholder returns (Mallin, 2007). This theory was adopted because, from the agency theory perspective, non-executive directors and independent directors within Kabale Municipality contribute to effective corporate governance by exercising control over senior managers' decision-making. After all, they are seen as the check and balance mechanism to enhance the board's effectiveness.

Stewardship Theory: According to Heentigala (2019), stewardship theory postulates that a steward protects and maximizes shareholder's wealth through firm performance, because by so doing, the steward's utility functions are maximized. A steward compares with the agent in the agency theory, where he is entrusted with the running of business on behalf of the owner. He prepares statements to show financial performance and position. He makes the decisions in managing the business to protect the interest of the owner. The sharp contrast between the two theories is on perception and attitude towards the job. In agency theory, an agent is solely aimed at financial benefits from the organization whereas in stewardship theory a steward derives motivation from his achievement (Brennan, 2012). The stewardship theory was adopted for this study because it strongly argues that managers and boards of directors are good stewards of a firm (keepers of the ICS) and they should be given utmost trust in their quest to attain performance.

The three theories are complementary in sense that the control theory aids Stakeholders in MFIs in Kabale Municipality to have detailed scope of their possible costs and how they influence performance, as well as how the different actors (principal and agents) relate to implement goals of organisation via the agency theory. In a related perspective, both the cost and agency theory are complementary to stewardship theory. Therefore, theories were complementary in explaining the aspect of performance of MFIs, defined by its relationship with Internal Control System in Kabale Municipality.

1.2 3 Conceptual background

This study considered two variables, that is, the internal control systems and performance of MFIs. Internal control is defined as a process designed, implemented and maintained by those charged with governance, management and personnel to provide reasonable assurance about achievement of entity's objectives with regard to reliability of financial reporting, effectiveness, efficiency of operations and compliance with applicable laws and regulations.

Internal control systems primarily enhance reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen & Meckling, 2016). According to Endaya and Hanefah (2016), internal control therefore has a much broader purpose in organization level. Internal controls provide an independent appraisal of quality of managerial performance in carrying out assigned responsibilities for better revenue generation. In this study, attention was given to relevant controls that are undertaken in financial institutions. These primarily included the collective and preventive internal controls. Generally, focus was on internal controls like clear separation of roles, appropriate supervision by senior staff on the work of their juniors, focus on the up to date internal control manuals for reference purposes, policies and procedures as well as safeguard of institutional assets by a corrective action and risk assessment. Effective internal control systems assist in formulation and implementation of quality procurement procedures that helps to factor justification for requisition at proper lead-time, quantity and at lowest prices (Mihret, James & Mula, 2010). This boosts profitability than blind ordering which result into loss and waste.

Ahmad, Othman, Othman and Jusoff (2014) argued that it is very important for every section and department of an organization to have an effective internal control system which is involved in blocking organization's income leakages and loopholes thereby supporting a sustained profitability, growth and other general corporate goals and objectives. Ouchi (2014) stated that internal control must be able to achieve the objective of bringing about cooperation among people with divergent objectives in an organisation. On the other hand, Financial Performance of an organization can be described in various forms, such as return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth. Sarens and Abdolmohammadi (2011) observed that it is also a measure of the excess value a company has provided to its shareholders over total amount of their investment. Therefore, appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

This study focused on performance of MFIs. Performance itself is the outcome realised by the organisation after accomplishment of its set tasks. They are goals and objectives expressed in financial and non-financial outcomes, realised by an organisation in a given period of time (Pina et al., 2020). In regard to MFIs, performance is a term used in relation to capacity of a financial institution to generate sustainable profitability. For any financial institution to be successful in its operations, managers must weigh complex trade-offs between growth, return

and risk, favouring the adoption of risk-adjusted metrics (Albertazzi & Gambacorta, 2011). According to Agbada and Osuji (2013), the Return on Assets (ROA) is a key proxy measure frequently used in the literature of bank financial performance and reflects management's ability and efficiency to utilize banks' financial and real investment resources to generate profits. The author further indicated that ROA depends on bank's policy decisions as well as on uncontrollable factors relating to economy and government regulations. Financial performance is the degree to which financial objectives of an organization are accomplished. Financial performance measure results of a firm in monetary terms. Institutions put in place best financial and non-financial structures in place to have competitive over their competitors. On the other hand, Amalendu and Sri (2011) showed that poor financial performance of an institution affect its attraction to 'would-be' investors which lead it to insolvency and eventual collapse. Financial performance is the measurement of how a business entity has utilized its resources to generate revenues. Financial performance is normally measured by ratios -- the gearing ratios, profitability ratios and liquidity ratios (Piper, 2010). Alfred (2017) also indicated that profitability ratios of any business entity portray the picture of how well the entity has employed resources efficiently; liquidity ratios deal with business entities to accomplish short-term obligations; and their gearing ratios indicate the extent of debt employment by the companies.

1.2.4 Contextual background

This study was conducted in MFIs in Kabale Municipality, South-Western Uganda. Kabale Municipality has some microfinance institutions like Bayport and Platinum Uganda Limited that struggled and later failed to take off due to failure to embrace right internal control systems (Microfinance Support Centre, 2020). As a result, these MFIs have failed to meet their target objectives, and their liquidity, profitability and sales volume remained negative. The regularity of fraud and misappropriation of funds is creating fear, anxiety and a loss of confidence in minds of customers in microfinance industry in Uganda. Even though microfinance institutions have helped in eradicating poverty, quite a number of them closed operations and attributed this to lack of sustainability as a result of poor internal controls especially the non-deposit taking institutions that are not regulated by the central bank (Amudo & Inanga, 2019).

Microfinance institutions are financial institutions that provide mode of finance designed to provide low-income individuals with means to become self-sufficient. A microfinance institution issue small loans to those marginalized from normal modes of finance with the

intention of helping the poor to prosper by allowing them to save or borrow money (Adongo & Stork, 2015). In African context, Aihounhin *et al.* (2016) argued that the importance of internal controls was perhaps highlighted by introduction of Structural Adjustments Programmes (SAPs) recommended by the International Monetary Fund (IMF). The internal controls within African economies focused on control mechanisms aimed at stabilizing fiscal policy and environment. SAPs in Uganda commenced in 1987. In other African developing countries such as Nigeria, a study by Rafindadi and Olanrewaju (2019) revealed that corporate organisations with established well-functioning internal control system actualized their goals and enhanced sustainable management in harmony with the stakeholders' interests.

According to Magala (2018), internal control helps to ensure that planned activities are achieved as per set objectives in terms of realizing the desired service delivery needed by organizational policy thus performance stature. Internal control leads to efficiency in utilization of organization resources whereby; jobs are carried out as explained by their description, availability of employees for work at all times and equitable allocation of resources and timely service delivery resulting into a better performance of the firm. Later Andrew (2018) revealed that Microfinance institutions in Uganda have contributed to poverty eradication in rural areas through giving loans with low or no collateral security like motorcycle loans which affected the performance of institutions, as most people end up defaulting. It is against this background that there was an urge for the researcher to investigate the relationship between internal control systems and performance of microfinance institutions in Kabale Municipality.

1.3 Statement of the problem

Performance of Microfinance institutions is relevant not only for the government, but also for other stakeholders, especially the public. Quality and effective performance of MFIs is ideal for economic growth and financial inclusion. This desired performance is attained when each staff or employee does their roles well (Sawani, 2016). In order to realize desired performance, microfinance institutions have been encouraged to focus on streamlining their internal control systems (Magala, 2018). The government of Uganda through different publications and parliamentary sittings has continued to urge all business ventures to adapt internal control system in order to attain their set goals and objectives (Parliament of Uganda, 2019). Emphasis has been directed to having a complete ICS to ensure prevention and detection of errors and frauds. The firm's economic assets generate income which abets

growth and sustainability. It was imperative for MFIs to establish watertight controls if at all it would achieve improved financial performance.

Despite the above, microfinance institutions have been seen to have a poor performance stance, with several not realising set targets, while others have closed business. In Kabale Municipality, for instance, Bayport and B-blue MFIs have collapsed (closed), and several other report a below target performance. Whereas this performance lapses, can arise in a number of occasions depending on the MFIs, it has been centrality revealed by research that performance is associated with unsatisfactory and deteriorating service delivery resulting into less revenue generated, collusion, fraud, embezzlement by employees, lack of transparency of all forms and poor accountability of cash and all business assets which has greatly led to closure of some microfinance institutions in Uganda (Henry, 2017; Kalyango, 2015). Indeed, a number of reflections point to internal control weaknesses. A number of MFIs have not yet set up appropriate internal controls needed for their day-to-day operations. If this persisted unstudied, several other MFIs were prone to making huge losses and face closure, constraining the overall decline in the performance of Microfinance institutions in Kabale Municipality. Nonetheless, and to the knowledge of the researcher, no recent study had focused on the relationship between internal control systems and performance of microfinance institutions operating in Kabale Municipality. This motivated undertaking this study.

1.4 General Objective

To assess the relationship between internal control systems and performance of microfinance institutions of Kabale Municipality

1.5 Specific Objectives

- i. To find out the effect of control environment on performance of microfinance institutions in Kabale Municipality.
- ii. To examine the effect of risk assessment on performance of microfinance institutions in Kabale Municipality.
- iii. To investigate the effect of monitoring activities on performance of microfinance institutions in Kabale Municipality.
- iv. To assess the effect of communication on performance of microfinance institutions in Kabale Municipality.

1.6 Research Hypotheses

Ha1: There is a significant effect of control environment on performance of microfinance institutions in Kabale Municipality

Ho1: There is no significant effect of control environment on performance of microfinance institutions in Kabale Municipality

Ha2: There is a significant effect of risk assessment on performance of microfinance institutions in Kabale Municipality

Ho2: There is no significant effect of risk assessment on performance of microfinance institutions in Kabale Municipality

Ha3: There is a significant effect of monitoring activities on performance of microfinance institutions in Kabale Municipality

Ho3: There is an insignificant effect of monitoring activities on performance of microfinance institutions in Kabale Municipality

Ha4: There is a significant effect of communication on performance of microfinance institutions in Kabale Municipality

Ho4: There is an insignificant effect of communication on performance of microfinance institutions in Kabale Municipality?

1.7 Scope of the study

1.7.1 Content scope

The study explored the relationship between internal control systems and performance of microfinance institutions of Kabale Municipality. Specifically, the study explored constructs of internal controls systems (control environment, risk assessment, monitoring activities and communication) to ascertain their effect on performance of microfinance institutions in Kabale Municipality.

1.7.2 Geographical scope

The study was carried in selected microfinance institutions in Kabale Municipality located in Central Division, Kabale Municipality in South Western Uganda. The study was confined in the following microfinance institutions; Pride Microfinance, Microfinance Support Centre, FINCA Uganda, Letshego and Brac Microfinance Uganda. The five MFIs were selected

because they are at different levels of operation thus potentially able to provide a comprehensive and representative scope of MFIs' performance in the municipality.

1.7.3 Time scope

This research study considered an operation period of 10 years between 2011 and 2021. This research looked at the data related to implementation of the internal controls systems, basing on experience in selected MFIs, over this period. This enabled the researcher to gather relevant and adequate data regarding the study under investigation.

1.8 Conceptual framework

The conceptual framework illustrated the relationship between internal controls systems and performance of microfinance institutions. Internal controls system was measured by components of: control environment, risk assessment, monitoring activities and communication due to their consistency in determining entity's internal control while performance of microfinance institutions was measured by liquidity, profitability, asset accumulation, portfolio quality and financial performance. The proposed interlink between variables was as in Figure 1.

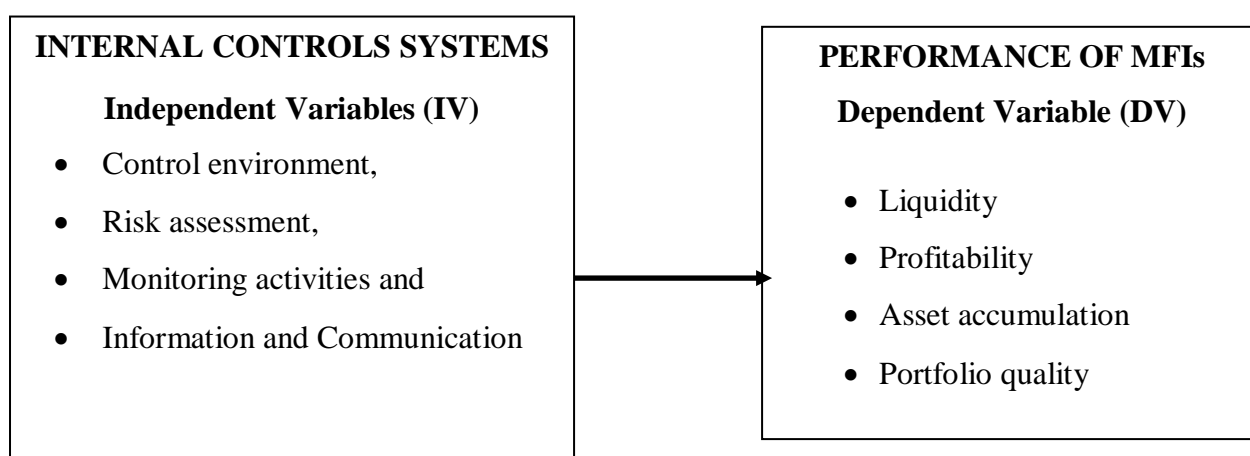


Figure 1: Conceptual framework

Source: COSO, (2013) and modified by the researcher (2021)

In the Conceptual framework above, internal control systems are an independent variable (measured by control environment, risk assessment, monitoring activities and communication) and is hypothesised to affect Performance of MFIs. Performance of MFIs is dependent variable (measured by Liquidity, profitability, portfolio quality and asset accumulation). Based on the information in the background, the conceptual framework was developed to

depict the relationship between these variables in a way that focused on the problem and the desired end result once the problem was solved. It catered for various interactive issues that affected the financial performance of Micro-finance Institutions in Kabale Municipality.

The conceptual framework depicted a relationship amongst internal control system constructs that affect the performance of Micro-finance Institutions. The above framework tested whether financial performance of a Micro-finance Institution was a function of the total control environment components in an organisation.

1.9 Definition of key terms used

Internal Controls: The Institute of Chartered Accountants of England and Wales (ICAEW), defined internal control as the whole system of controls, financial or otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible, the completeness and accuracy of the records.

Audit refer to independent examination of financial statements to see whether they portray a true and fair view of company state of affairs and as to whether books of account and vouchers are kept according to company's Act. It is a management control that delves other controls to ensure achievement of profitability.

Control environment: These are policies and procedures that help ensure management directives are carried out. Specifically in this study, control environment was explored in terms of performance review, physical controls and segregation of duties in the MFIs

Monitoring activities: Monitoring is a process that assesses quality of the system's performance over time. In this paper, monitoring activities of supervision, external audit and evaluations of financial activities were considered for study.

Risk assessment: Risk assessment is a prerequisite for determining how the risks should be managed. In this study, risk assessment focused on the ability of financial controllers to forecast, identify and analysis risk potential to the financial practice of MFIs in Kabale Municipality.

Internal audit refers to a function that evaluates a company's internal controls, including its corporate governance and accounting processes. These audits ensure compliance with laws

and regulations and help to maintain accurate and timely financial reporting and data collection.

Performance; The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. It included variables such service delivery, sales revenue, and accountability.

Microfinance institutions; Are organizations that provide loans to low-income clients, including micro-companies and self-employed, who traditionally lack access to mainstream sources of finance from Banking Institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter includes review of literature relating to the relationship between internal controls and performance of microfinance institutions. The chapter presents the theoretical review, conceptual, and an empirical review of this literature. The review further focuses on the major theme of the study; that is the effect of control environment, risk assessment, monitoring activities and communication on performance of microfinance institutions.

2.2 Theoretical Review

Fundamental theories from corporate governance apply in formulation and implementation of internal controls. In this study, the review covered Control, Agency and Stewardship theories.

2.2.1 Control Theory

The control theory has been described as an interdisciplinary branch of engineering and mathematics that deals with dynamic systems with inputs. The external input to the system is called the reference. When one or more output variables of a system need to follow a certain reference over time, the controller manipulates to a system to obtain the desired effect on the output of the system (Vijayakumar & Nagaraja, 2012). The objective of this theory is to calculate solutions for proper collective action from the controller that results into system stability. That is the system sets the set point and not oscillates it. According the proponents of this theory, this theory works hand in with the financial intermediation theory put forth by Gurley and Shaw 1960 which they based on the informational asymmetry and agency theories.

In principle, the existence of financial intermediaries is explained by existence of several factors like: high cost of transaction, lack of complete information in useful time assumptions there is perfect market where no one participant can influence prices; placement / borrowing conditions are identical for all participants; no discriminatory fees; lack of competitive advantages by participants and that all financial securities are homogeneous, divisible and transactional. There are no transaction costs for obtaining information or of insolvency and that all participants have immediate access to complete information regarding factors and elements that influence the current or future value of the financial instruments (Laudon & Laudon, 2011).

According to Cohen and Sayag (2010), the theory ratifies three elements -- controller, controlled and the method of control. The controller represents the top administrative group responsible for making decisions. The controlled is the activities that must be subjected to a controlled output or behavior with the set rules. With this set up, organization goals are accomplished with minimum use of resources for organizational effectiveness and congruency of individual and organization goals (Anthony & Govindaraja, 2014). It also abets the employees to make decisions and take actions which are in the best interest of the organization.

In the above regard, this theory was adopted because Stakeholders in MFIs in Kabale Municipality labour to calculate solutions for proper collective action from the controller in an attempt to attain system stability necessary for performance of the aforesaid MFIs.

2.2.2 Agency Theory

This theory according to Brennan (2012) was basically introduced to separate ownership and control of an organization. In its context the principal denotes owners of organization whilst agents are people whom owners put in-charge with responsibility of managing their organization. Agents therefore run business on behalf of owners. They make decisions aimed at increasing shareholders wealth. In view of agency theory employees are more self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority. This creates conflict of interest between them and principals who are their employers. Employees are held accountable for their responsibilities and therefore they should be part of good governance structures themselves as opposed to providing the need of shareholders (Anthony & Govindarajan, 2014). This theory was adopted because, from the agency theory perspective, non-executive directors and independent directors contribute to effective corporate governance by exercising control over senior managers' decision-making. After all, they are seen as the check and balance mechanism to enhance the board's effectiveness.

2.2.3 Stewardship Theory

According to Heentigala (2019) stewardship theory postulates that a steward protects and maximizes shareholder's wealth through firm performance, because by so doing, stewards' utility functions are maximized. A steward compares with an agent in agency theory, where he is entrusted with running business on behalf of the owner. He prepares the statements to show financial performance and position. He makes the decisions in managing the business to

protect interest of the owner. The sharp contrast between the two theories is on the perception and attitude towards the job. In agency theory, an agent is solely aimed at financial benefits from the organization, whereas in stewardship theory a steward derives motivation from his achievement (Brennan, 2012). The stewardship theory was adopted for this study because it strongly argues that managers and boards of directors are good stewards of a firm and they should be given utmost trust in their quest to attain performance.

Stewardship theory proposes the establishment of structures that empower stewards to work independently. They does not require supervision or close monitoring (John, 2011). Similarly, board of directors of MFI underpin stewardship by granting the steward unlimited authority to run the organization. This reduces costs that organization would have incurred while monitoring and controlling organization. This is a good strategy to optimize profit for the organization. In so doing, stewards concurrently guarantee prosperity of organization while protecting their position in organization. Heentigala (2019) asserts that executives and directors are also managing their careers so as to be seen as effective stewards of their organization.

2.3 Actual Review of Related Literature

2.3.1 Control environment and performance of Microfinance Institutions

Kinyua, Gakure, Gekara and Orwa (2015) examined the Effect of Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange (NSE). To realize the objective of this study, the researcher adopted a survey research design. The study population was all 62 companies quoted on the NSE. The study used a sample of 38 companies from a target population of 62 companies quoted in NSE. The sample was drawn using a stratified random sampling technique. The study relied on both primary and secondary data. Primary data was collected using structured questionnaires while the secondary data was extracted from audited annual reports, publications and document analysis. Data analysis used both descriptive and inferential statistics. Frequency tables were prepared, averages determined and tests of hypothesis like ANOVA, chi-square, correlation analysis were done. The results and findings concluded that there was a significant association between control environment and financial performance and recommends that control environment should be enhanced to further improve the financial performance of companies quoted in Nairobi Securities Exchange.

According to Cielens (2010), control environment helps to establish a workable bookkeeping and accounting system that ensures all transactions are recorded and accurately processed in the appropriate books of account. Similarly, Eferakeya (2014) noted that controls activities help in unearthing irregularities which contributes to managerial effectiveness. Chukwu (2012) later established that internal control system supports financial management, especially through proper control environment and effective segregation of duties and checks and balances over the organization's funds and assets (Bukonya & Kinatta, 2012). However, these studies especially Bukonya and Kinatta (2012), did not specifically address the effect of internal control environment on financial performance. Indeed, the scope of Kabale Municipal Council was not explored.

Generally, control environments are relevant to an organisation as they do not only define ICS policies and procedures but also shape firm's performance through well undertaken performance reviews. These control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance; relating different sets of data, operating or financial to one another, together with analyses of relationships, investigative and corrective actions; comparing internal data with external sources of information.

Whittington and Pany (2016) noted that control environment sets the tone for the organization by influencing the control consciousness of people. They further asserted that control environment is viewed as the foundation for all other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience and stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine level of risk they may take on), and Organizational structure (which may be a well-organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles). In relation to this, Hassan Al-Tamimi and Mohammed Al-Mazrooei (2017) posit that control environment is the necessary actions taken to address risks to achievement of an entity's objectives. Control activities occur throughout the organization, at all levels and in all functions.

In a similar perspective, according to Rafindadi et al. (2019), control environment in MFIs are a range of activities that give a diverse scope of financial controller's activities ranging from approvals, authorizations, verifications, reconciliations, reviews of operating performance to proper management and safeguard of assets and segregation of duties. Recently, Weickgenannt, Hermanson & Sharma (2021), recounted that proper control environment are those which steer up not only financial effectiveness but also performance of the company in physical and financial resources. These studies, Rafindadi et al. (2019) and later Weickgenannt et al. (2021), agreed that proper implementation of control environment is key for ICS and could also be pronounced contingent factors for effective performance. This however had not been explored especially for MFIs in Kabale Municipality, and attracted attention for the researcher in this study. Specifically, the researcher explored the employee performance review, physical controls and segregation of duties in MFIs as part of ICS, and how this was vital for enhancing financial performance of the financial institutions.

According to Papadatou (2015), especially when control environment engages use of the ICT, this provides organisational and functional performance levels. Control environment help management in verification of records, and safeguarding of organisational assets. A related study by Visser and Erasmus (2018) showed that depending on type of control activity done, scope and level of financial performance vary positively. Muraleetharan (2013) also reported that control environment within ICS, is core for shaping financial performance achievements in the organisation. A significant link between internal control environment and financial performance is also expressed in several other studies (Musya, 2014). However, these studies did not focus on the public sector but dominantly in financial and education institutions.

Papadatou (2015) opines that control activities like physical access to assets and important records should be implemented. Accordingly, physical security of computer equipment and limited access to computer programme files and other peripheral computer details should be enforced. Organisations should establish information processing controls, manual information processing control procedures as well as computerized information processing control procedures in form of usage of passwords and access logs, all in a bid to eradicate malpractices. In this regard, Bukenya and Kinatta (2012) noted that proper physical control improves financial performance by safeguarding vulnerable assets, while Ng'wasa (2017) pointed out that internal control environments and their supervisory role checked and curtailed the incidence of fraudulent activities. Most of these studies focused on private firms, and did not specifically address it to performance of MFIs. Besides, the scope of microfinance

institutions in Kabale was not explored by Ng'wasa (2017), and this further motivated the researcher to carry out this study.

Control environment in every organization occur at all levels, in all functions and remain core for overall implementation of the ICS, and performance of the company. A study by Petrovits et al. (2011), noted that control environment involves the procedures, policies, programmes, strategies and instructions that guide management to achieve their organizational objectives. In this regard, as cited by Schulze et al. (2013), control environment being procedures directs management on course of action, is often key for streamlining financial performance. A recent study by Rafindadi and Olanrewaju (2019), revealed that control environment yield better, timely, and well managed risk assessments, consequently shaping financial performance. Similar studies, especially Whittington and Pany (2016) continue to point closely to the link between control environment and financial performance. This shows that better control environment, especially through performance reviews, forecasts, period performance, physical controls and segregation of duties reduces under performance among employees and fraud cases, factors that may further influence performance of organizations, including MFIs.

Control environment in any organization sets a tone for the organisations influences of conscience of its people (Janvrin et al., 2012). Control environments form the overall structure and discipline of internal control system. The control environment influences the integrity, ethical values and competence of management in the organization. The attitude of management should be geared towards improvement and values which form ethical business principles (Amudo & Inanga, 2019). When an organization practices the right values then it was motivated towards its profitability since workers work very hard in best interest of company (Musya, 2014). Integrity and ethical values of an organization enhances creditworthiness of stakeholders and more so leads to increase in investments in such an organization. For a microfinance institution it is necessary to cultivate competence, knowledge and skills which lead to accomplishment of organizations' objectives. In Uganda, it is clear that there is a significant influence of control environment on performance of MFIs.

2.3.2 Risk assessment and performance of Microfinance Institutions

Schulze et al (2013) revealed risk assessment is a key in identifying, evaluating and mitigating risks. Ntongo (2012) and Magara (2013) also revealed that risk assessment ensures that limited resources of institutions are properly used for credible financial performance. In

relation to this, studies on performance further show that risk assessment is key for reducing risks, controlling failure and harnessing performance. More so, Verstegen (2010) noted that risk assessment is key for defining audit objectives; audit scope, methodology, audit examination programme, audit budget and/or resources, all of which influence performance of MFIs. However, these studies did not give the scope of the public sector firms especially in the Ugandan setting. Similarly, Magara (2013) revealed that risk assessment is an integrated, strategic assessment of organisation-wide risk, which shapes MFI performance, by controlling uncertainties and meeting its audit activities. Besides that, these studies did not show how much risk assessment affects performance of MFIs, an aspect this study further explored.

Risk assessment is a vital exercise for all-size microfinance institutions since every entity faces a variety of risks from external and internal sources that must be assessed and a sound risk assessment is put in place to explore operations of company and save danger of uncontrolled risk-taking (COSO, 2013). A related study by Chandra (2016) showed that risk assessment in any business aims to eliminate any risks, and this has been a key aspect of a sound ICS. Ntongo (2012), in her study revealed that risk assessment is critical for performance of MFIs as it shapes the extent to which employees respond to risk; transfer, tolerance, treatment and termination. Related studies, especially Sarens and De Beelde (2016), further show that proper risk assessment is vital for performance of MFIs although they explored the private and not the public sector. This provided room for researcher to explore these aspects in MFIs operating in Kabale Municipality.

Anh et al. (2020) argued that a complete risk assessment encompasses the assessment of likelihood of risk occurring as well as estimation of quantitative and qualitative costs of potential risk. In addition, also included is determination of how to manage risk. Setting priorities is one of ways that enable organization to focus on risks with reasonable likelihood of occurrence and higher effects (Sharma & Senan, 2019). An effective internal control system requires that the material risks that could adversely affect achievement of organization's goals are being recognized and continually assessed. This assessment covers all risks facing the organization. The risk assessment processes deal with risks that pose a threat to achieving the firm's objectives. It involves the identification, analysis and assessment of relevant risks.

In this connection, Schulze et al. (2013) noted that risk assessment is one of the key arenas for shaping performance of MFIs, in the short and long run. The COSO framework (2013), also showed that risk assessment through its risk identification and analysis is vital for shaping the company's way of progress. While several of these studies especially Schulze et al. (2013), risk assessment is a key aspect of ICS for purposes of managing proper resources, procedures and policies, and how these have a bearing on operations of organisation. In this study, risk assessment and its effect on performance of MFIs was explored to enrich these earlier studies. In line with this, management designs and operates satisfactory internal control to ensure efficient and effective use of resources and comply with procedures and policies.

According to Kinyua et al. (2015) in their study in Kenya, risk assessment helps in identifying and analyzing relevant risks to preparation of financial statements, in conformity with general accepted accounting principle. Besides the use of systematic procedures to identify and analyse relevant risk and management of risks, is core in shaping financial performance activities in any organisation (Inusah et al. 2015). In addition, Magara (2013) noted that risk assessment occasions risk identification, risk evaluation, risk response, which characterize risk assessment in ICS, help to regulate credit fraud, customer and operational risks in an organisation. These findings show that risk assessment as part of ICSs are key for performance of MFIs, but did not give a direct reflection of the Ugandan perspective, which this current study focused to address, basing on MFIs operating from in Kabale Municipality.

Continuous assessing of internal control system of an institution adversely affects its achievements and goals of institution. The assessment covered all risks facing institution's departments addressing any new or previous uncontrolled risks. Risk assessment is estimate of likelihood and impact of internal control risks from internal and external sources. The main objective of understanding risk assessment for a microfinance institution is to help the institution be able to administer and administrate risks that occur in the institution. Every organization faces both internal and external risks which are prone to assessment (Morris, 2011). Every organization internal control system should provide an assessment of the risks the organization is prone to. The organization identified risks and then analysed for the possibility of their effects. Once risks have been identified it's then the management's responsibility to formulate an approach for risk management and decide on internal control environment to be used to solve the risks and achieve the internal control goals and objectives.

2.3.3 Monitoring and performance of Microfinance Institutions

According to John and Morris (2011), monitoring describes a relationship between monitoring effectiveness and performance of MFIs especially in its role of enhancing skills of junior officers, and monitoring the quality of services offered by the junior person. To John and Morris (2011), monitoring is a gate keeper to financial accountability and professionalism of financial controllers. Hence, to Hayes (2012), monitoring improves interpersonal relationship between employees and supervision which increases commitment at work hence increased productivity. Additionally, through proper monitoring and supervision within the ICS, clear demarcation of responsibilities and task performance roles are well defined. However, Hayes (2012) did not focus on the Ugandan context, and neither did they explore the context of municipalities. Later, Wang and Hooper (2017) added that proper monitoring in ensuring accuracy, punctuality, and attitudes and skills of employees and how they use these to support the organization in achieving its financial objectives. This however, they also did not focus on the context of MFIs of Kabale Municipality, as later explored in this current study.

Previous researches showed that providing proper control environment on Non-Governmental organizations is essential to operational effectiveness and financial performance of organizations (Ayom, 2013). Furthermore, Bett and Memba (2017) in their research found that control environment is most important aspect in managing organization as it reflects management's policies and attitudes. One of key factor is Assignment of Authority and Responsibility which includes how authority and responsibility for operating activities are assigned and how reporting relationships and authorization hierarchies are established. It also includes policies relating to appropriate business practices, knowledge and experience of key personnel and resources provided for carrying out duties. In addition, it includes policies and communications directed at ensuring that all personnel understand entity's objectives, know how their individual actions.

Sharma and Senan (2019) revealed that monitoring activities facilitate knowledge, skills and competence which are interlinked in examining the scope and performance of the internal control officer. The cash being collected, issued and utilized should be monitored and these monitoring activities are critical in determining financial position of the organisation (Musya, 2014). Internal control monitoring activities help to assess independence of management, frequency and timeliness in meeting financial obligations, which in a way measure financial performance (Visser & Erasmus, 2018). Similarly, Sarens and De Beelde (2016) found out that ongoing monitoring is likely to be informal and typically performed as part of overall

management of entity's operations. Monitoring identifies significant variances, expectations and inaccuracies in financial data leading to corrective action to controls. However, the studies were outside Uganda, and did not directly detail the Ugandan perspective. This prompted the researcher to explore these findings in a Ugandan context, focusing on MFIs in Kabale Municipality.

Monitoring is basically assessing any system or activity in an organization. The process of monitoring of organization's profitability is done by assessing different activities and operations of the organization, (Gjerdrum & Peter, 2011). Monitoring is effective when done on timely basis and necessary actions done on time. Management monitoring is considered effective when controls include considering whether the organization is operating as intended within the set conditions. Performance of an organization can be monitored through assessing the organizations performance which may include the salesperson's compliance with the company's sales policy (Ayom, 2013). Monitoring requires resources in order to achieve its objectives. An organization must be ready to provide adequate financial resources to enable it to achieve the monitoring process. Monitoring in many instances poses a positive effect on profitability of any organization. This is argued on basis that when an organization monitors in its internal control system, it is able to detect failures in different activities hence correcting them in good time and improving towards great success which leads to high profit margins.

A study by Katushabe (2016) explored the aspect of monitoring in ICS and revealed that appropriate supervision, and well-done monitoring during a financial year, is key for performance of financial institutions. Katushabe (2016) noted that monitoring helps to keep the work on track, and can let management know when things are going wrong. If done properly, it is an invaluable tool for good management and provides a useful base for evaluation. In this regard, Rafindadi & Olanrewaju (2019) reported that monitoring activities, utilisation of resources and capacity to steer financial performance of organisation. Appropriate mechanism of monitoring is critical in supporting financial performance levels (Ssebakumba, 2013). These studies show that monitoring helps financial institution to determine whether resources are well utilised and steer performance. However, they did not provide substantial evidence from institutions like MFIs. Therefore, our study, explored the effects of monitoring in ICS on performance, premising on MFIs in Kabale Municipality.

2.3.4 Communication and performance of Microfinance Institutions

Oguntoyinbo (2011) looks at information and communication component as the identification, capture, and communication of pertinent information in an appropriate form and timeframe to accomplish financial reporting objectives. Open channels of communication are necessary to allow information to flow throughout entity and into financial statements. Therefore, management should discuss identification, capture and flow of financial information in its report. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to inform business decision-making and external reporting (Olumbe, 2012).

The three major categories of management objectives comprise; effective operations, financial reporting and compliance (Hayes, 2012). Effective operations are about safeguarding the assets of the organization. The physical assets like cash, non-physical assets like receivables, important documents and records of the company can be stolen, misused or accidentally destroyed unless they are protected by adequate controls. The goal of financial control requires accurate information for internal decision because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally required to comply with laws and regulations including company laws, tax laws and environment protection laws.

In the growing economy technology has become an essential tool for management in any organization. New technology is used by management to ensure business systems have a positive impact on organization's profitability and success (Laudon & Laudon, 2011). Information and communication technology in any organization facilitates the management with resources that help them make decisions on current services and products that are relevant to the company. Selecting appropriate products/services give organization an advantage in market that it is dealing with (Laudon & Laudon, 2011). Information and communication is a very critical tool to internal control systems, it is usually in reference to proper functioning of all organization activities. Poor communication infrastructures of any company may affect the organization from the management level to the lower staff hence making the organization prone to losses from all aspects, (Cescon, Costantini & Rossi, 2013). Communication is an essential tool in internal control systems and it significantly influences organization's performance.

Information and communication explain the process of identifying, capturing, and communicating of relevant information in an appropriate manner and within timeframe in order to accomplish the financial reporting objectives (Ayom, 2013). However, effective communications should occur in a wider sense with information within various sections of the organization (Theofanis et al, 2011). Most recent literature on internal control system frameworks gave concerned on information and communication as one of internal controls system components, because of their importance in influencing working relationship within organization at all levels (Amudo & Inanga, 2019). Hence, such information must be communicated throughout entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement.

Kanuna's (2013) study examined the effects of information communication technology on financial performance of courier service providers in Kenya: A Case Study of Document Handling Limited. This study adopted a survey research method to show the relationship between information's communications Technology and performance practices. The secondary data was collected from financial statements of Document Handling Limited and books to collect information on annual earnings of the Company. Kanuna (2013) findings revealed a strong positive correlation between predictor variables and independent variables.

Chege's (2016) study also investigated the effects of information communication technology adoption on financial performance of financial institutions in Kenya. This study adopted a descriptive research design and the population of study consisted of all 258 financial institutions in Kenya as at 2015. Simple random sampling technique was applied to select a sample size of financial institutions. The study applied primary data using questionnaires and secondary sources to collect data from respective institutions' financial statements and summaries at the Central bank of Kenya. Adoption of ATM technology had improved cost efficiency in the institutions, improved fraud risk management in the bank an improved new customer enrolment in the institutions.

Mwangi's (2012) study also evaluated the impact of information communication development on financial performance of Commercial Banks in Kenya. The research data was collected through use of questionnaires. The respondents were employees of commercial banks in Kenya. Data was collected from all the 44 commercial banks in Kenya. From the analysis of data collected, it can be seen that investment on information and communication systems and

infrastructure has been a key element in productivity and growth in the banking industry. This study indicates that ICT enables banks to offer a broad variety of services to customers.

2.3.5 Internal Control Systems and Performance of Microfinance Institutions

Ahmed and Ng'anga (2019) examined the effect of Internal Control systems on Financial Performance of County Governments in the Coastal Region of Kenya. The study adopted a descriptive research design. The target population of the study was 115 respondents made up of internal audit staff of the county government, the study was carried out using primary data, and the data was collected using questionnaires. Analysis of the data was both descriptive and inferential analysis. The study found a positive and significant effect between risk assessment, monitoring, control environment, information and communication on financial performance. The study concluded that the risk identification and mitigation play the most significant role in influencing the financial performance of the County governments. The study recommended that the management of Counties should put in place cost-effective measures for timely risk identification and effective risk mitigation to ensure that their financial performance is not impacted negatively.

Mire (2016) assessed the Effects of Internal Control System on the Organizational Performance of Remittance Companies in Mogadishu-Somalia. The study adopted quantitative research with the specific research design being descriptive. The population of the study was the classified remittance companies located in Bakara market, and there were 15 remittance companies in the Bakara market, the employees who worked in 15 remittance companies were 402 employees. The sampling technique used was purposive sampling. Primary data was collected by use of questionnaires which were administered through drop and pick method. Data screening was done to identify any missing data and was further tested for reliability and normality. Data was analyzed using the SPSS version. The study recommended that there is need for the remittance companies in Mogadishu to increase their control environment; risk assessment and control activity as it was founded that these variables positively affects the organizational performance of remittance companies in Mogadishu. The study failed to consider all five internal control variables, the study also used customer satisfaction and employee satisfaction as dependent variables without considering return on assets, the study did not also focus on MFIs.

Evans, Olayide, Abass and Adama, (2013) examined the effect of internal control on performance of commercial banks in Nigeria. Survey method was employed and the study used stratified random sampling in which a total of 382 questionnaires were administered to either staff of operations, marketing, or security department in the Nigerian commercial banks. The findings of the study revealed a positive and significant relationship between the four components of internal control (control environment, control environment, monitoring and risk assessment) and bank performance. Information and communication were found to have an insignificant positive relationship with bank performance. The study recommended that future research should add other additional variables like risk culture, corporate governance. Likewise, control variable (s) such as bank size, bank age, etc. can also be considered by future researchers.

Collins (2014) examined the effect of internal control on the performance of microfinance institutions in Kisumu central constituency, Kenya. The independent variable was internal control (Control Environment, Control Activities and Information and communication) and the dependent variable was financial performance (Liquidity). Descriptive and correlation research design was adopted and a case study was done on the chosen institutions. Convenience sampling technique was used and a total of 7 institutions were chosen from a total population of 18 micro-finance institutions and a total of 35 respondents (five respondents per institution; 2 midlevel managers and 3 staff members) chosen purposively for this study. Questionnaires were used to collect primary data and data collected analyzed using correlation and presented through tables. Findings revealed that there is a positive relationship between internal control. The study recommends that the institutions should tighten controls to tend towards a 100% debt collection. The study further points out that keen attention should be paid to adopt more efficient management information systems. The study was however not done in the Kabale Municipality context; the study further did not consider monitoring activities.

Cohen and Sayag (2010) examined the effect of Organization's Internal Control System on Organizational Effectiveness. Data were collected using a self-administrated questionnaire from 151 employees occupying different managerial levels in Jordan. The results of the multiple regression test showed a high positive impact of study variables on organizational effectiveness with ($R = 87.9\%$) and ($R \text{ square} = 77.3\%$). Based on the findings of the research, the researchers suggest a number of relevant recommendations related to improving awareness about the importance of internal control system components and mechanisms to

improve internal procedures and processes for improving organizations' effectiveness using different approaches.

Bett and Membwa (2017) conducted a study titled Internal Control Systems and Financial Performance of Public Institutions of Higher Learning in Vihiga County, Kenya. A study used a descriptive research design. The target population was 140 employees in the four institutions studied whereas sample size was 96 employees. Primary data was collected from sample population using semi-structured questionnaires. Descriptive and multiple regression analysis were used to analyze data. The study found that the institutions had adequate and effective control environment which included regular internal audit reports, adequate segregation of duties in the finance and accounts departments and physical controls to prevent excess allocated funds. Control environment was found to have a positive significant effect on the financial performance of the institutions under study. Internal control system was found to have a positive significant effect on the financial performance of the institutions under study. Control environment was found to have a positive and significant effect on the financial performance of the institutions under study.

In another study by Lagat and Okello (2016) covering the effect of internal control systems on financial management in Baringo County government in Kenya, internal control systems are integral components of the management processes of a public sector institution which should be established in order to provide reasonable assurance that financial operations are carried out transparently and accountably. The study adopted the Committee of Sponsoring Organizations of the Tread Way Commission (COSO) theoretical framework for analysis of internal control systems. According to COSO framework, the internal control system is analyzed using five variables-control environment, control environment, risk assessment, information and communication and monitoring. The research concluded that control environment and monitoring of information communication technology, significantly influences performance of microfinance institutions as indicated by these analyses) significantly predict changes in financial management.

Rafindadi and Olanrewaju (2019) in their study on the impact of internal control system on the financial management of an organization within the context of the Nigeria Bottling Company found that internal control measures ensured proper use of organization funds and assets. The Z value of 3 degree of freedom and 5% significance for two tailed test was 0.9989 which is less than table value 2.6. The study also found that fraud perpetration and losses of

revenue in an organization are not a result of internal control system. Internal control systems are put in place to detect/prevent frauds and losses of revenue and this study seeks to confirm the above findings.

2.4 Summary of Literature

Performance of MFIs is one area that is given a lot of prominence all over the world, it has been widely researched. A lot of literature has been written on financial performance, and External auditors normally place a lot of emphasis on Internal controls as measure to ensure sustainable and improved financial performance. However, it is the perception of the researcher that there were still gaps in the research so far done. Therefore, there was need to establish the relationship between internal control systems and financial performance of organizations. It can also be concluded from the literature review that several researchers concur that there is a relationship between Internal Control Systems and performance of MFIs, however this is not specific in the line of microfinance. These conclusions could be confirmed or dispelled from the empirical evidence obtained from the research, a factor that motivated the researcher to conduct this study and get primary results and conclusions in regard to the establish between internal control systems and performance of microfinance institutions in Kabale Municipality.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used for this study. It covers the research design, study population, sample population, size, sampling procedures, data collection methods and their corresponding data collection instruments, data management and analysis procedures, reliability and validity and the ethical considerations.

3.2 Research Design

A research design is an overall plan or strategy for conducting research (Ngabirano, 2012). In order to achieve objectives of the study, a cross sectional survey research design was adopted. A cross section survey research design is used when different categories of people are being handled at same time (Amin, 2005). Therefore, the researcher adopted this research design to enable her collect data from MFI administrators and staff, deal with qualitative and quantitative data and come out with valid and dependable conclusions and recommendations required for study. Quantitative and qualitative study approaches were used. A quantitative approach assisted in establishing statistical data that can be generalized to explain the effect of ICS on performance of MFIs in Kabale Municipality. As expressed, quantitative approach when properly conducted gives detailed information from a wide scope of sample involved, and is able to inform a policy or decision (Bryman, 2018).

Qualitative research approach was used because it provides a comprehensive detail of first-hand data on internal control systems and performance of financial institutions. Correlation and regression analyses were used to establish the relationship between internal control system and performance of MFIs. The researcher used a survey and field research to gather quantitative and qualitative data respectively.

3.3 Area of study

In this case, this research was done among MFIs operating in Kabale Municipality. The study was carried out at premises of Kabale Municipal Council, Kabale District South Western Uganda. MFIs included; Pride Microfinance, Microfinance Support Centre, FINCA Uganda, Letshego and Brac Microfinance Uganda. These were given pseudo names of A, B, C, D and E respectively. These were selected using purposive sampling since the targeted respondents had knowledge about internal control systems and performance in terms of liquidity, profitability, asset growth and sustainability.

3.4 Study Population

The researcher considered a population of 155 people from five (5) selected MFIs operating in Kabale Municipality. In the selected MFIs, the total population including; 130 employees and 25 MFI administrators were selected. The target respondents were selected from each MFI using purposive and stratified sampling methods. The study sought responses from MFI's administration and staff. Respondents from all hierarchies gave an account related to research questions since MFIs' performance cuts across all departments of the institutions.

Table 1: Study population

Institution	Population		Total
	MFI Administrators	Staff	
A	03	27	30
D	04	15	19
C	05	22	27
E	04	18	22
B	09	48	57
Total	25	130	155

Source: MFIs Human Resource Report, 2022

3.5 Sampling Size determination and procedure

3.5.2 Sample Size

Using Slovin's Formula of sample size determination, the researcher determined a sample size of 112 respondents to participate in the study from a population of 155 subjects. The sample included all the 25 MFI administrators and 87 staff members from selected MFIs in Kabale Municipality. This was determined using Slovin's formula as indicated below.

$$n = \frac{N}{1 + N(e)^2}$$

Where N is the Population (155), n is the sample size and e is the level of significance at 0.05

$$n = \frac{155}{1 + 155(0.05)^2}$$

Sample size, $n = 112$ respondents

Table 2: Sample size and selection

Population Category	Population	Sample Size	Sampling Technique
MFI administrators	25	25	Census
MFI's employees by department		87	Stratified simple random
Banking Assistants	46	31	simple random
Accountants	20	13	simple random
Records Assistants	15	10	simple random
Loans Officers	39	26	simple random
Other staff	10	7	simple random
Total	155	112	

Source: Computed by Researcher, based on Slovin's Formulae, and MFIs Human Resource Departments, 2022

3.5.2 Sampling techniques

In this study, a census of MFI administrators and stratified random sampling techniques were used. The administrators were considered as a census given that all of them had various positions, vital in decision making as regards internal control system and performance of the institution. Each of these positions was relevant to the study. A census is highly referred when all members in the sample contribute specific information to the researcher (Bryman, 2018).

Regarding employees, stratified random sampling technique was used. All employees were stratified on basis of their current department in which they serve at the institution. A total of sample elements needed by department was obtained, and allocated to all MFIs in proportion to the total staff in each department. Particular employees were selected randomly using selection cards. Selection cards were marked either, Yes or No, and sealed in an envelope. Each employee was asked to pick a selection card without replacement. Only those who picked Yes marked cards were considered for participation in the study in their respective departments at each MFI. Simple random sampling technique was used to collect information from employees in the company. This technique has high generalizability of findings and thus, suitable for a large study population (Sekaran & Bougie, 2010).

3.6 Data Sources

3.6.1 Primary Data

Primary sources are original materials on which research is based. They are first hand testimony or direct evidence concerning a topic under consideration. They present information in its original form, neither interpreted nor condensed nor evaluated by other writers (Amin, 2015). Respondents were given questionnaires to be filled and the researcher conducted interviews with specific respondents (top administrators) based on questions designed in interview guide and responses were aggregated as results of this study. The questionnaires were self-administered and researcher delivered them to respondents in person. The interviews based on interview guides were conducted personally using face-to-face method.

3.6.2 Secondary Data

Secondary sources offer interpretation or analysis based on primary sources. They explain primary sources and are often used to support a specific thesis or argument or to persuade the reader to accept a certain point of view (Amin, 2015). Other publications from secondary sources like dissertations, publications, journals and internet were accessed to obtain relevant and supporting literature on ICS and performance of MFIs.

3.7 Data collection methods

3.7.1 Questionnaire Survey

Questionnaires are one of the most commonly used tools in survey, especially where there are a large number of participants. In this study, a structured and self-administered questionnaire was considered. Questionnaires are ideal for saving time, are cost effective and provide room for high response rate (Creswell, 2018). The questionnaires provide room for confidentiality, and are ideal for sensitive areas of study like on ICS and performance. The respondents had to choose options basing on their level of agreement with questionnaire items.

3.7.2 Interviewing

In this study, interviews were adopted. The researcher engaged the respondents in a face-to-face interviews focused on study topic and objectives. Interviewing are widely used in soliciting for detailed information about the subject from a key informant (Bryman, 2016). In this study, face-to-face interviews were held with MFIs administrators, taking duration of 30-45 minutes per respondent. The interviews were facilitated by a semi-structured interview

guide. Interviews are of great advantage since they can enable the researcher to establish rapport with the respondent. This enabled the interviewer to: “ask follow-up questions, in order to clarify the respondent’s meaning, probe for material that the respondent could not mention spontaneously, obtain superficial responses and ensure that respondent answers all the questions. More so, interviews gave more opportunities to simplify the study content, and enabled respondents to understand the study scope of data coverage (Barker, et al., 2002).

3.8. Data Collection Instruments

Various instruments were used by the researcher to collect data. This included questionnaires and interview guide

3.8.1 Questionnaires

A questionnaire refers to a compilation of questions, which helps the researcher gather the necessary research data for the study (Mugenda & Mugenda, 2013). This study considered closed-ended questions. A self-administered questionnaire was prepared and used for this study. The researcher used pre-coded questions anchored on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). Self-completion questionnaires were considered appropriate given that they are cost-effective in collecting data (Kent, 2007). The questionnaire was employed on staff and clients of the MFIs.

3.8.2 Interview Guide

Interview guides were also used in this study. The researcher designed an interview guide. This was administered in a face-to-face interview session with selected top administrators of MFIs operating from Kabale Municipality. The guide was designed with at least 3 open ended questions for each study variable. The interviews are commonly used for detailed perspectives about phenomena under study (Creswell, 2018). The interviews also allowed the participants to freely express themselves, giving a comprehensive scope of coverage about the study variables.

3.9 Data Collection Procedure

After the University had approved the research proposal, an introductory letter from the Directorate of Postgraduate Programmes was obtained. The researcher took the letter (Appendix IV) to the management of selected MFIs operating in Kabale Municipality for acceptance to conduct a study from there. The researcher thereafter prepared data collection

tools and pre-tested them for validity and reliability. After acceptance from agencies, the researcher will proceed on with data collection.

3.10 Data Quality Control

For every research study, quality of data is very important. This is through ensuring validity and reliability of study of instruments (Yin, 2014).

3. 10.1 Validity

Validity is the degree to which a test measures what is supposed to measure (Amin, 2005). The researcher ensured validity of instruments for efficiency and effectiveness of the tools to arrive at dependable findings, conclusions and recommendations demanded by study objectives and topic. The instruments were designed and discussed with experts in the field to ascertain whether they are comprehensive, clear, simple and relevant to the study objectives. A Content Validity Test was conducted using the CVI whose formula is;

$$CVI = \frac{\text{Number relevant items}}{\text{Total Number of Items}} \times 100$$

Substituting in the formula, $CVI = 71/89$; $CVI = .80$

The results of the CVI include questionnaire (59 items) and 12 interview guide items. From the pre-test of tools, a CVI of 0.8 was obtained. This CVI value was above .7, thus, the instruments were valid (Amin, 2005). The instruments were further improved and questions edited to only keep worthy and relevant items for the final study.

3.10.2 Reliability

Reliability of an instrument is degree to which the instrument consistently measures whatever is to measure (Amin, 2005). Cronbach alpha (Cronbach, 1951) reliability coefficient of 0.6 points and above was used to measure internal consistency or average correlation of items in a survey instrument to gauge its reliability. The higher the score, the more reliable the generated scale is. For instance, Nunnally (1978) argues that a 0.7 alpha coefficient is an acceptable reliability coefficient.

In this study, the researcher ensured reliability by applying the same instruments to related respondents two times to see whether the tools could yield the same responses. The researcher conducted a pilot study on 10 respondents from one other MFI in municipality. The ideal was to check the consistency of responses among various study participants from the same line of

industry. On basis of pre-test results, Cronbach's Alpha Coefficient test. Cronbach's Alpha Coefficient test are highly used and recommended for survey studies (Bryman, 2018). Results of Cronbach's Alpha test are in Table 3.

Table 3: Cronbach reliability test

Variable constructs	Items tested	Cronbach's Alpha
Control Environment	08	0.77
Risk Assessment	08	0.81
Monitoring	08	0.78
Information and Communication	08	0.72
Performance of microfinance institutions	15	0.76

Source: Primary data, 2021

From table 3, the Cronbach's Alpha coefficients of the all variables tested were above 0.70. This was an indication that the instrument was reliable.

3.11 Data Analysis

Data collected were checked for consistency and to eliminate misleading data which could arise from misrepresentation of questions.

3.11.1 Analysis of Quantitative Data

Data collected were checked each day to check for consistency and accuracy. After data collection, data were entered in Statistical Package for Social Sciences (SPSS) software programme Ver. 20 for analysis. Descriptive statistics in form of frequency and percentages were obtained and used to provide descriptions of variables. Pearson correlation and multiple regression analysis were also be used to establish relationships between independent and dependent variables. A multiple linear regression determined extent independent variables predicted dependent variable. Information was explained with assistance of p-values for hypothesis testing. The hypotheses were accepted when their p-value is less than 0.05 and considered to be with significant relationships. Correlation coefficient (R) and coefficient of determination (R^2) were used to determine relationship between variables, presented in tables.

3.11.2 Analysis of Qualitative Data

All the qualitative data collected from interview were edited on a continuous basis to ensure completeness. Data collected with use of interview schedules were put into meaningful and exhaustive categories. Content analysis was main method of analyzing data collected to determine adequacy of information, credibility, usefulness and consistency (Mugenda &

Mugenda, 2013). Data collected were categorized according to emerging variables from each question in interview guide. All data sources were triangulated during analysis to increase validity of study. Outstanding and relevant quotations, sentences, statements and expressions were picked and used in study to reflect actual feelings of respondents about study variables.

3.12 Ethical Considerations

The study upheld all ethical considerations recommended in research. This involved seeking for participants' informed consent, their privacy and anonymity. It also considered high levels of confidentiality and avoiding plagiarism.

Seeking participants' informed consent: Before engaging any of participants in study, the researcher first sought their informed consent. The purpose and objectives, as well as mode of participation were elaborated to potential participants. Participants were allowed to ask questions for clarification (where need arose). They were asked to fill a consent form, if they agreed to participate in the study. Only consenting participants were involved in the study.

Anonymity: Keeping researcher' details and personality anonymous is vital for studies that involve humans over sensitive information (Stevenson & Mahmut, 2013). The researcher upheld all private data, details and opinions from respondents, anonymous. Information was kept under key and lock and used exclusively for academic purposes. Specific names of persons and areas that could hardly be ignored in the report were represented by Pseudo names. Only information that causally related to the study objectives was included in the study report.

Privacy: The participants selected were treated with a high level of private. No participant was allowed to tick the questionnaire in groups, and for the sake of interviews, each interviewee was contacted separately. Any recording done and used for study, was later deleted from researcher's database.

Confidentiality: For confidentiality of the respondents' views and opinions, the researcher ensured that all responses provided in questionnaires and interviews are used for only academic purposes. Furthermore, access to such information was granted to only individuals who are directly included in this research study.

3.13. Limitations

Some respondents were not ready to answer the questions, or spare time for the study. This delayed the study and reduced its study. However, the researcher explained purpose of the study to respondents and developed simple and straight forward tools. This encouraged all participants to take part in the study confidently.

Some respondents concealed important data for personal and official reasons. This was on aspect of performance of microfinance institutions that was largely considered as classified information. This however was minimized by promising privacy and confidentiality. More so, the researcher gained formal permission from MFI administration to access this information.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The overall study purpose was to assess the relationship between internal control systems and performance of microfinance institutions of Kabale Municipality. This chapter highlights data analysis, presentation and interpretation of study findings. The chapter first presents the response rate, followed by findings on respondents' demographics, and lastly findings on regression model to provide answers to the specific objectives of the study.

4.2 Response rate

The response rate looks at the returned questionnaires divided by the number of issued questionnaires and expressed as a percentage. While the researcher targeted a sample size of 111 respondents, not all these participated. The response rate for the study is portrayed in Table 4.

Table 4: Response rate

Category	Target No of Respondents	Realized No of Respondents	Percentage of response (%)
Respondents	112	105	93.75%

Source: Primary data, 2020

The results presented in Table 4 indicate that 112 respondents constituted the target sample for this study, though only 105 fully participated, giving a response rate of 93.75%. Therefore, the target number of respondents obtained was acceptable. A response rate of over 90% is regarded to have a high representation of the population, thereby accurately reflecting results that would have been derived from the entire population (Groves et al., 2009).

4.3 Background Information of Respondents

4.3.1 Gender of respondents

The study involved respondents of both gender statuses who were operators of microfinance entities in Kabale Municipality. The findings are presented in Table 5.

Table 5: Gender of respondents

Gender of respondents	Frequency	Percent
Male	49	46.7
Female	56	53.3
Total	105	100.0

Source: Primary data, 2021

Results in Table 5 show that majority of respondents 53.3% were female compared to their male counterparts (46.7%). The study findings indicate that respondents of both gender statuses were represented in the study, as well as in the employment plan of microfinance institutions in Kabale Municipality.

4.3.2 Microfinance institutions of respondents

Microfinance entities represented in this study, contributed various participants as in Table 6

Table 6: Microfinance Institutions of Respondents

Distribution of respondents by MFIs		Frequency	Percent
Valid	A	27	25.7
	C	20	19.0
	E	18	17.1
	B	31	29.5
	D	9	8.6
	Total	105	100.0

Source: Primary data, 2021

Table 6 shows that most respondents were from Microfinance Institution B (29.5%), followed by Institution A (25.7%), then Institution C had 19.0% of the participants, and E had 17.1% representation in the study. Institution D had the minority participants of 8.6%. Majority were from Microfinance Institution B because it was a representative of the Microfinance Support Centre, a dominant MFI in the entire country and in Kabale Municipality as well. While Microfinance Institution D was the newest in Kabale Municipality hence with a few employees at its facility visited in the study.

4.3.3 Position of the Respondents

The positions held by respondents at their respective MFIs in were as in Table 7.

Table 7: Distribution of respondents by Position

	Position held at the MFI	Frequency	Percent
Valid	Management	28	26.7
	Staff	77	73.3
	Total	105	100.0

Source: Primary data, 2021

Findings revealed that 77 (73.3%) of participants held staff positions within the microfinance institutions while 28 (26.7%) were operating under the management positions. This therefore implies that most employees in MFIs in Kabale Municipality were staff. This reinforces the notion that activities of any organisation (MFIs inclusive) are run by staff. Relevant staff must be employed to support the organisation including its performance in ICS.

4.3.4 Level of Education of the Respondents

The level for education accomplished by research respondents operating microfinance institutions in Kabale Municipality generated results reflected in Table 8.

Table 8: Level of Education of the Respondents

	Level of Education	Frequency	Percent
Valid	Certificate	5	4.8
	Diploma	34	32.4
	Degree	49	46.7
	Master's	13	12.4
	Others	4	3.8
	Total	105	100.0

Source: Primary data, 2021

Research output highlighted the least percentage of respondents operating Microfinance institutions were 4 (3.8%) and belonged to others. This implied that this category of respondents had other post- graduate qualifications other-than masters degrees. Majority of the respondents were 49 (46.7%) had succeeded in finishing a Bachelor's Degree. 34 (32.4%) had succeeded in actualizing a diploma level. Master's Degree respondents were 13 (12.4%).

Also, 5 (4.8%) of respondents had only attained certificates. These findings were a revelation that people operating microfinance entities were capable of making informed decisions not only on their day to day roles, but also on internal control system and overall performance of the Microfinance institution.

4.3.5 Respondents Age Distribution

Age coverage for participants is portrayed within Table 9.

Table 9: Age Distribution

	Age of respondents (years)	Frequency	Percent
Valid	18 - 34 Years	86	81.9
	35 - 59 Years	16	15.2
	Above 60 years	3	2.9
	Total	105	100.0

Source: Primary data, 2021

The results from the study show that most of the respondents (81.9%) were under the age bracket of 18-34 years, followed by 15.2% whose age was between 35-59 years. Minority of respondents (2.9%) were under the age bracket of 60 years and above. The findings imply that most MFIs had employees within the age brackets of 18-34. This because several staff in MFIs were recruited right after their formal education. However, the least employers were 18 years given this as a national recognised, minimum age for labourers. A few were over 60 years, as most MFIs; retire their staff at or before 60 years.

4.3.6. Experience Record

The study sought to establish the years that the respondents had been in service with the microfinance entities. The results are revealed in Table 10.

Table 10: Number of Years Spent Working with the MFI

	Experience of service in years	Frequency	Percent
Valid	6-9 years	41	39.0
	2-5	36	34.3
	1 year and below	19	18.1
	10 and above	9	8.6
	Total	105	100.0

Source: Primary data, 2021

As indicated in Table 10, 29.0% of the respondents had experience record of 6-9 years in service. Respondents with 34.3% had worked for between 2 to 5 years. Other respondents

with 18.1% had worked for 1 year and below. Minority of respondents (8.6%) had worked with microfinance entities for 10 and above years. The findings therefore indicate that majority employees had an experience record of between 6-9 years. These findings imply that respondents operating MFIs had adequate experience of understanding the dynamics of their business in terms of internal control systems and performance.

4.4 Descriptive analysis

4.4.1 Control Environment

The study sought to examine the effect of control environment on performance of microfinance institutions in Kabale Municipality. The respondents were asked to indicate their level of agreement with several statements pertaining to control environment in microfinance institutions in Kabale Municipality. The findings are shown in the Table 11.

Table 11: Level of Control Environment

Statements on Control Environment	N	Mean	Std. Deviation
In this MFI, staff are given up to date internal control manuals for reference purposes	105	2.45	1.185
Staff are aware of the penalties for breaking internal control procedures	105	3.59	1.238
Our institution has clear separation of roles	105	3.00	1.481
There is appropriate supervision by senior staff on the work of their juniors	105	3.08	1.246
In this MFI, policies and procedures are clear and they are issued, updated and revised on timely basis	105	3.73	1.250
Our security system identifies and safeguard institutional assets	105	3.33	1.517
Corrective action is taken to address weaknesses	105	4.06	1.125

Source: Primary data, 2021

The study found that the majority of the respondents with a mean score of 4.06 and a standard deviation of 1.125 believed that corrective action was taken to address weaknesses as part of the control environment measures. Additionally, respondents (mean 3.33; standard deviation of 1.250) opined that as part of the control environment their security system identified and safeguard institutional assets. Respondents (mean of 3.59; standard deviation of 1.238) argued that staff were aware of penalties associated with breaking internal control environment procedures while other respondents (mean 3.73, standard deviation of 1.250) asserted that in

their MFIs, policies and procedures were clear and they were issued, updated and revised on timely basis which defined the control environment clearly.

Additionally, respondents (mean = 3.08, standard deviation of 1.250) presupposed that there was appropriate supervision by senior staff on work of their juniors while other respondents (mean of 3.00, standard deviation of 1.481) noted that their institutions had clear separation of roles. Minority scores (mean= 2.45 and a standard deviation of 1.185) were of respondents that stated that in their MFIs, staff were given up to date internal control manuals for reference purposes.

In summary, the study found the majority of the respondents with a mean score of 4.06 and a standard deviation of 1.125 believed that corrective action was taken to address weaknesses. The aforementioned revelations were supported by qualitative findings from interviews from the respondent coded “A1” who acknowledged that;

Within our establishment, I make sure that my subordinates get to learn the right activities to put their efforts to the right use. I have self-conviction that when employees are corrected regularly, it makes their work free from any unwanted faulty proceedings when they are executing their mandate. (A1).

4.4.2 Risk Assessment

The study sought to examine the effect of risk assessment on performance of microfinance institutions in Kabale Municipality. The respondents were asked to indicate their level of agreement with the several statements pertaining to risk assessment in microfinance institutions in Kabale Municipality. The findings are shown in the Table 12.

Table 12: Level of Risk Assessment

Statements on Risk Assessment	N	Mean	Std. Deviation
In this MFI, risks are assessed in relation to changes in the operational environment	105	3.69	1.534
The reporting mechanism in this place is less risky for this MFI	105	3.54	1.617
In this MFI, all risks are measured	105	3.27	1.607
This MFI is strict in identifying risks	105	2.36	1.302
This MFI has competent and knowledgeable personnel	105	3.56	1.461
There are mechanisms in place to identify and react to changes that can have an effect on performance of this MFI	105	3.75	1.307
Services of this MFI possess less risk	105	2.17	1.522

Source: Primary data, 2021

The study found that the majority of the respondents (mean =3.75; standard deviation = 1.307) believed that there were mechanisms in place to identify and react to changes that can have an effect on performance with given MFIs. Relatedly, respondents (mean =3.54 and a standard deviation =1.617) opined that the reporting mechanism that was in place was less risky for the given MFIs. In addition other respondents (mean = 3.69; standard deviation = 1.534) argued that their MFI's risks were assessed in relation to changes in the operational environment, though not many respondents (mean =3.56; standard deviation = 1.461) asserted that their MFIs had competent and knowledgeable personnel.

More so, other study respondents (mean =3.27; standard deviation = 1.607) presupposed that in their MFIs, all risks were measured while a few respondents (mean =2.36; standard deviation = 1.302) noted that their MFIs were strict in identifying risks. Minority of respondents highlighted that the services of their MFI possessed less risk (mean =2.17; standard deviation = 1.522). In summary, the study found that several participants (mean =3.75) believed that there were mechanisms to identify and react to changes that can have an effect on performance with given MFIs. The aforementioned findings were supported by qualitative findings from interviews from the respondent coded “A3” who acknowledged that;

In our banking institution, we make sure that thorough assessment is made which is one of the many aspects with a long history of identifying risks capable of inflicting loses to the organization. With issues regarding risk assessment, we are very prepared to take the necessary steps with the aim of stopping risks from occurring. (A3).

4.4.3 Monitoring of Activities

The study sought to investigate the effect of monitoring activities on performance of microfinance institutions in Kabale Municipality. The respondents were asked to indicate their level of agreement with the several statements pertaining to monitoring activities in microfinance institutions in Kabale Municipality. The findings are shown in the Table 13.

Table 13: Level of Monitoring of Activities

Statements on Monitoring of Activities	N	Mean	Std. Deviation
Separation of duties exists between departments of this organization	105	3.80	1.319
There is a clear reporting mechanism for all activities of this branch	105	4.25	1.277

In this MFI, segregation of duties exists within transaction processing and authorization custody	105	3.87	1.408
This institution's projects are monitored and reported as required of the monitoring criteria	105	2.54	1.448
Monitoring strategies are used at any time during monitoring process	105	3.38	1.619
Quality assurance is adhered to for all projects of the branch	105	2.30	1.594
External auditors rely on the work of internal auditors while auditing	105	4.54	.760

Source: Primary data, 2021

The study found that the majority of the respondents (mean =4.54; a standard deviation =0.760) believed that external auditors relied on the work of internal auditors while auditing, though other respondents (mean= 4.25; a standard deviation = 1.277) reported a clear reporting mechanism for all activities in respective branches of MFIs. Other respondents (mean = 3.87; standard deviation=1.408) argued that within the MFIs, segregation of duties existed within transaction processing and authorization custody. Furthermore, other respondents (mean= 3.80) asserted that there was separation of duties between departments of their organization as a monitoring practice. Additionally, the respondents presupposed that monitoring strategies were used at any time during monitoring process (mean= 3.38; standard deviation =1.619), while others (mean = 2.54) noted that their institution's projects are monitored and reported as required of the monitoring criteria. A minority case of respondents (mean =2.30) highlighted that their quality assurance was adhered to for all projects of the branch.

In summary, the study found that the majority of respondents with a mean score of 4.54 and a standard deviation of 0.760 believed that external auditors relied on the work of internal auditors. The aforementioned findings were supported by qualitative findings from interviews from the respondent coded "A9" who acknowledged that;

Internal auditors are involved in a tremendous job which requires them to put together all the organizational spend. This is later used as a basis for making external reports and auditing from third parties who sometimes maybe intermediaries (A9).

4.4.4 Communication

The study sought to assess the effect of communication on performance of microfinance institutions in Kabale Municipality. The respondents were asked to indicate their level of agreement with several statements pertaining to communication in microfinance institutions in Kabale Municipality. The findings are shown in Table 14.

Table 14: Level of Communication

Statements on the ICS communication in MFIs	N	Mean	Std. Deviation
Information and communication is encouraged in this institution	105	4.15	1.108
Information and knowledge is shared openly within this organization	105	3.41	1.472
Senior management communicate well with the rest of the organisation	105	4.14	1.172
Information systems in this MFI produce reports containing operational, financial and compliance-related information	105	3.98	1.217
There is a clear channel of information flow in this MFI	105	4.46	.844
Information and communication is done in appropriate way	105	2.70	1.358
Manager does a good job of sharing information	105	4.48	.910

Source: Primary data, 2021

The study found that the majority of the respondents (mean =4.48; standard deviation =0.910) believed that their MFI's manager does a good job of sharing information, while others (mean=4.46) opined that there was a clear channel of information flow in their MFI. Other respondents argued that information and communication was encouraged in their institution (mean =4.15). A large number of respondents (mean score =4.14; standard deviation = 1.172) asserted that senior management communicated well with the rest of the organization. Additionally, an average portion of respondents (mean =3.98) presupposed that information systems in their MFI produced reports containing operational, financial and compliance-related information while others (mean of 3.41; standard deviation =1.472) noted that information and knowledge was shared openly within their organization. Minority (mean =2.70) highlighted that information and communication was done in an appropriate way.

In summary, the study found that the majority of the respondents believed that the manager does a good job of sharing information. The aforementioned findings were supported by qualitative findings from interviews, it was established that microfinance institutions in one way was successful due to information sharing. Respondent "A4" acknowledged that;

The fact that managers are responsible for directing and coordinating operations, appropriate information sharing with subordinates serves in re-directing the aforementioned subordinates focus to a common goal within the microfinance institutions (A4).

4.4.5 Performance of Micro Finance Institutions

The respondents were asked to indicate their level of agreement with statements pertaining to the performance of microfinance institutions in Kabale Municipality. The responses are shown in Table 15.

Table 15: Performance Assessment

Statements on the performance of MFI's status	N	Mean	Std. Deviation
This MFI has a high rate of profitability	105	3.58	1.350
Liquidity in this MFI has been good	105	3.38	1.403
This MFI has accumulated assets for future expansion	105	3.40	1.465
MFI meets all its short/long term financial obligations whenever due	105	3.19	1.302
All transactions by this MFI is well reported to stakeholders	105	3.28	1.560
This MFI meets its budgets estimates for all user departments	105	4.10	1.091
Financial reports are prepared in time	105	3.72	1.497
There is increased sales volume in this MFI	105	3.25	1.314
There are reports of financial mismanagement in some departments	105	4.02	1.152
The institution employs chartered certified financial managers	105	2.51	1.324
Financial statements are regularly audited by an independent auditor	105	4.33	1.016
Robust financial management practices are associated with better loan performance of MFIs.	105	3.98	1.118
Level of portfolio quality at MFI determine its performance	105	3.84	1.218
Portfolio quality is related to credit risk management	105	4.37	.993
Portfolio quality improves with credit risk management measures	105	4.47	1.057

Source: Primary data, 2021

The study found that the majority of the respondents (mean= 4.47) felt that their portfolio quality improves with good/better credit risk management measures while several others opined that the financial statements are regularly audited by an independent auditor. In addition, many respondents (mean= 4.7; standard deviation =0.993) argued that portfolio quality is related to credit risk management. Also, respondents with a mean score of 3.98 and a standard deviation of 1.118 asserted that robust financial management practices are associated with better loan performance of MFIs.

Additionally, several respondents (mean =4.10; standard deviation =1.091) proclaimed that their MFI meets their budgets estimates for all user departments and others (mean =4.02) asserted that there are reports of financial mismanagement in some departments. Complementarily, respondents (mean =3.72) asserted that financial reports are prepared in time, while respondents (mean =3.84; standard deviation of 1.218) emphasized that the level of portfolio quality at MFI determine its performance.

Additional respondents (mean=3.58) acknowledged that their MFI had a high rate of profitability, and close to the same number of participants (mean =3.28) noted that all transactions by their MFI were well reported to stakeholders. Also, other respondents (mean= 3.40) presupposed that their MFI had accumulated assets for future expansion. Respondents with a mean score of 3.19 and a standard deviation of 1.302 highlighted that their MFI met all its short- and long-term financial obligations whenever they were due. In addition, respondents (mean =3.25) revealed that there was increased sales volume in their MFI. Other respondents (mean =3.38) expounded that liquidity in their MFI had been good. Minority of respondents claimed that the institution employed chartered certified financial managers.

In summary, the fact that the majority of the respondents with a mean score of 4.47 and a standard deviation of 1.057 felt that their portfolio quality improves with good/better credit risk management measures. This finding was supported by qualitative findings from key informant interviews. It was established that performance in MFIs was in one way established by credit management measures. Respondent A2 acknowledged that;

when a microfinance institution holds perfect internal control system, it experiences extremely lesser losses as compared to those microfinance entities whose ability to mitigate risks are limited making them susceptible to financial reductions” (A2).

4. 5 Correlation analysis

To examine the strength of the relationship between internal control systems and performance of microfinance institutions of Kabale Municipality, a Spearman correlation analysis was conducted so as to determine the relationship between the outcome and predictor variables used in the study. Correlation between two variables is measured by correlation coefficients. In this study, spearman correlation coefficient was used to determine the relationship between internal control systems and performance of MFIs.

Table 16: Correlation analysis results

Spearman's rho		Performance assessment	
Control environment	Correlation Coefficient		.076
	Sig. (2-tailed)		.439
	N		105
Risk assessment	Correlation Coefficient		.147(**)
	Sig. (2-tailed)		.009
	N		105
Monitoring activities	Correlation Coefficient		.024(**)
	Sig. (2-tailed)		.006
	N		105
Communication	Correlation Coefficient		.023
	Sig. (2-tailed)		.819
	N		105

** Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data, 2021

The results portrayed in Table 16 above reveal that there is no significant relationship between control environment and performance of microfinance institutions in Kabale Municipality. This relationship is indicated by the Spearman's correlation coefficient of 0.076, $p > 0.01$. This implied that any effort taken by MFIs to improve control environment would not necessarily yield to an increase in performance. Results further revealed that there was a weak significant relationship between risk assessment and performance of MFIs in Kabale Municipality ($r = -.147$; $p < 0.01$). If MFIs embrace improvements in risk assessments, they are more likely to have high performance. Furthermore, revealed a weak significant relationship between monitoring activities and performance of MFIs ($r = .024$ $p < 0.01$). This implied that if MFIs in Kabale Municipality continue to embrace monitoring activities, they will on average obtain higher performance. An insignificant relationship was obtained between communication and performance of MFIs in Kabale Municipality ($r = .023$; $p > 0.01$). This therefore implied that any effort taken by MFIs to improve and communication may not necessarily yield an increase in performance.

4.6 Regression analysis

Regression analysis was carried out to establish the extent to which internal control systems affect performance of microfinance institutions in Kabale Municipality, South Western

Uganda. Simple regression analyses were carried out to establish the effect of the constructs of the independent variable on performance of microfinance enterprises.

4.6.1 Effect of control environment on performance of microfinance institutions in Kabale Municipality

To establish the effect of control environment on performance of microfinance institutions in Kabale Municipality, a simple regression was run by regressing control environment outputs with microfinance institutional performance and results are presented in table 17 below.

Table 17: Regression model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.356 ^a	.151	.016	.33808

a. Predictors: (Constant), communication, monitoring activities, control environment, risk assessment

Table 17 portrays the coefficient of determination (0.356^a) which implies that one unit of change in the independent variable (internal control systems) causes a change of 35.6% of the dependent variable (performance of MFIs). This implied that the remaining percentage (64.4%) can be explained by other internal control system components (Internal Audit). More so, results show that R square of 0.151 was obtained. This implies that the four independent variable constructs explain only 15.1% of the variations in performance in MFIs. This further indicates that other factors (not covered in this study) dominantly explain (by 84.9%) performance in MFIs in Kabale Municipal Council.

Table 18: ANOVA model summary

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.266	4	.067	.583	.676 ^a
	Residual	11.430	100	.114		
	Total	11.697	104			

a. Predictors: (Constant), communication, monitoring activities, control environment, risk assessment

b. Dependent Variable: Performance of MFIs

In testing the significance of the model, results showed that the model was insignificant in predicting the influence of the predictor variables on performance of MFIs in Kabale Municipal Council (Sig. = 0.676 > 0.05) in a two tailed test. Therefore, the study reveals that the model does not describe the effect of internal control systems on performance of MFIs in Kabale Municipality.

Table 19: Regression coefficients portraying the effect of control environment, risk assessment, monitoring activities, and communication, on performance of MFIs

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	4.176	.460		9.087	.000
	Control environment	-.035	.066	-.053	-.536	.593
	Risk assessment	-.089	.065	-.137	-1.371	.030
	Monitoring activities	-.034	.065	-.052	-.523	.602
	Communication	.010	.074	.013	.132	.895

a. Dependent Variable: Performance of MFIs

Source: Primary data, 2021

A multivariate regression model was adopted to establish whether there existed an effect of internal control systems on performance of MFIs in Kabale Municipality. Therefore, the regression model equation was as follows.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Which became: $Y_i = 4.176 - 0.035X_1 - 0.089X_2 - 0.034X_3 + 0.010X_4 + \varepsilon$

The model implies that when all the variables of the study are held constant, Performance of MFIs in Kabale Municipality will be at 4.176. A unit enhancement in control environment while all other factors are held constant results in -.035 increase in performance of MFIs, compared to risk assessment at -.089 and monitoring activities at -.034 increase in performance of MFIs. A unit enhancement in communication with other factors being held constant led to .010 increase in performance of MFIs in Kabale Municipality.

From Table 19, the above regression coefficients help in answering the regression equation on the underlying effect between the study variables. Results indicate that Control Environment ($p = .593$) communication ($p = .895$) and monitoring activities ($p = .602$) were statistically insignificant. On the other hand, risk assessment portrayed a significant relationship with

performance in MFIs ($p=.030$). Therefore, the hypotheses 1, 3 and 4 (H_{a1} ; H_{a3} , H_{a4}), were not accepted, as their p-value was greater than 0.05. However, only hypothesis two (H_{a2}) about risk assessment was accepted to support the perspective held by the study. Therefore, results show that from the findings, only risk assessment had a significant statistical effect on the performance of MFIs in Kabale Municipality.

CHAPTER FIVE

DISCUSSION OF THE RESULTS

5.1 Introduction

This section presents a discussion of the study findings. The general objective sought to investigate within Kabale Municipality, the effect of internal control systems on performance of microfinance institutions. The specific objectives of the study were; to examine the effect of control environment on performance of microfinance institutions in Kabale Municipality; to examine the effect of risk assessment on performance of microfinance institutions in Kabale Municipality; to investigate the effect of monitoring activities on performance of microfinance institutions in Kabale Municipality; and to assess the effect of communication on performance of microfinance institutions in Kabale Municipality. During analysis, simple regressions were made to establish the degree of predictability of the predictor variable on the outcome variable.

5.2 Effect of control environment on performance of microfinance institutions

The study revealed an insignificant effect of control environment on performance of microfinance institutions in Kabale Municipality. This was observed when p value was greater than 0.05, meaning that control environment strategies in the study don't significantly explain variations in performance of MFIs in Kabale Municipality. The study therefore confirms that control environment as part of the internal control system in MFIs contributed less to their performance in Kabale Municipality. Microfinance institutions should therefore consider applying other internal control systems to improve their performance.

These findings were in agreement with previous studies which established an insignificance of the control environment on performance. Such as, that conducted in Kenya by Kinyua, Gakure, Gekara, and Orwa (2015) which was conducted on the Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange. The study revealed an insignificant effect of control environment on financial performance.

In disagreement to research findings, research conducted in Uganda by Bukenya and Kinatta, (2012) highlighted that internal control systems in terms of control environment significantly supported financial management. Also, research conducted in Kenyan public institutions of higher learning in Nairobi City by Katushabe (2016) revealed that internal control systems in

terms of control environment had a significant effect on financial performance of the entities in Kenya. Additionally, these findings were also in disagreement with previous studies which established a significant effect of internal control systems in terms of control environment and on performance. Such as, that conducted in Nigerian commercial banks by Evans, Olayide, Abass and Adama (2013) which examined the effect of internal control on performance. The research findings of the study revealed that there was a positive and significant effect between the three components of internal control systems which included, control environment, risk assessment, and monitoring.

The research findings were also in disagreement with those of Ahmed and Ng'anga (2019) which established a positive and significant effect between control environment and financial performance of public sector entities in Kenya. This was attributed to the fact that control environment significantly helped in risk identification and mitigation play.

5.3 Effect of risk assessment on performance of microfinance institutions

The study revealed that there was a significant effect of risk assessment on performance of microfinance institutions in Kabale Municipality. This therefore implied that risk assessment systems in the study significantly explain variations in performance of MFIs in Kabale Municipality. The study therefore confirms that there is a significant effect between risk assessment and performance of MFIs in Kabale Municipality. Microfinance institutions should therefore consider applying risk assessment as an important internal control system so as to improve their performance.

These findings were in agreement with previous studies which established a significant effect of internal control systems in terms of risk assessment on performance. Such as, that conducted in Nigerian commercial banks by Evans, Olayide, Abass and Adama, (2013) which examined the effect of internal control on performance. The research findings of the study revealed that there was a positive and significant effect between the three components of internal control systems which included, risk assessment, control environment, and monitoring.

Additionally, research in Jordan by Cohen and Sayag (2010) which examined the effect of the Organization's ICS on Organizational Effectiveness, the study findings revealed that internal control systems in terms of risk assessment had a significant effect on organizational effectiveness. It was therefore upon that notion that the study recommended relevant recommendations related to improving awareness about the importance of internal control

system components, and mechanisms to improve internal procedures and processes for improving the organizations' effectiveness using different approaches.

5.4. Effect of monitoring activities on performance of microfinance institutions

The study revealed an insignificant effect of monitoring activities on performance of microfinance institutions in Kabale Municipality. This was observed when p value was greater than 0.05, meaning that monitoring systems and strategies in the study don't significantly explain variations in performance of microfinance institutions in Kabale Municipality. The study therefore confirms that there is a non-significant effect between monitoring activities and performance of MFIs in Kabale Municipality. Microfinance institutions should therefore consider applying other internal control systems such as risk assessments to improve their performance.

These findings were in agreement with previous studies which established an insignificance of the control environment on performance. The study conducted in Kenya by Kinyua, Gakure, Gekara, and Orwa (2015) on the Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange. The study revealed an insignificant effect of monitoring activities on financial performance. In contrast, research conducted in Nigerian commercial banks by Evans, Olayide, Abass and Adama, (2013) which examined the effect of internal control on performance revealed that there was a positive and significant effect between the three components of internal control systems which included, monitoring, risk assessment, and control environment.

5.5. Effect of communication on performance of microfinance institutions

The study revealed an insignificant effect of communication on performance of microfinance institutions in Kabale Municipality. This was observed when p value was greater than 0.05, meaning that communication systems and strategies in the study don't significantly explain variations in performance of microfinance institutions in Kabale Municipality. The study therefore confirms that there is a non-significant effect between communication and performance of MFIs in Kabale Municipality. Microfinance institutions should therefore consider applying other internal control systems to improve their performance.

These findings were in disagreement with previous research undertakings which revealed a significant effect between communication and performance. For example, the study conducted in Kenya in Baringo County government by Lagat and Okelo (2016) on the effect of internal control systems on financial management in Kenya which revealed that the use of

communication technology significantly influenced performance of microfinance institutions. The study therefore concluded that communication would be used to significantly predict changes in financial management.

Similarly, research conducted in Kenyan Commercial Banks by Mwangi (2012) whose research undertaking evaluated the impact of information communication development on financial performance revealed that that investment on information and communication systems and infrastructure had a significant effect on performance of banks. He therefore further highlighted that communication was a key element in productivity and growth in the banking industry.

CHAPTER SIX

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This section presents the study recommendations, and study conclusions based on the specific objectives of the study which were; to examine the effect of control environment on performance of microfinance institutions in Kabale Municipality, to examine the effect of risk assessment on performance of microfinance institutions in Kabale Municipality, to investigate the effect of monitoring activities on performance of microfinance institutions in Kabale Municipality, and to assess the effect of communication on performance of microfinance institutions in Kabale Municipality. This section additionally illuminates on other areas of further study that could be undertaken by various stakeholders.

6.2 Summary of the findings

6.2.1 Effect of control environment on performance of microfinance institutions

The study revealed an insignificant effect of control environment on performance of microfinance institutions in Kabale Municipality. This therefore confirms that control environment as an element of ICS does not influence and performance of MFIs. Microfinance institutions should therefore consider applying other internal control systems to improve their performance

6.2.2 Effect of risk assessment on performance of microfinance institutions

The study revealed a significant effect of risk assessment on performance of MFIs in Kabale Municipality. This implied that risk assessment as part of the internal control systems influences performance of microfinance institutions in Kabale Municipality. Microfinance institutions should therefore consider applying risk assessment as an important internal control system so as to improve their performance.

6.2.3 Effect of monitoring activities on performance of microfinance institutions

The study revealed an insignificant effect of monitoring activities on performance of microfinance institutions in Kabale Municipality. This therefore confirms that, in their effort to improve performance, management of MFIs should not give too much attention to monitoring activities.

6.2.4 Effect of communication on performance of microfinance institutions

The study revealed an insignificant effect of communication on performance of microfinance institutions in Kabale Municipality. Whereas improvement in communication played several roles in the overall operations in MFIs, its effect on performance as an element of ICS was not significant. The study therefore confirms that there is a non-significant effect between communication and performance of MFIs in Kabale Municipality.

6.3 Conclusions

From the study, risk assessment played a significant role in enhancing performance of microfinance institutions in Kabale Municipality. Therefore, the study concluded that risk assessment is very important and should be embraced to enhance performance in terms of increased profitability, liquidity, asset accumulation, portfolio quality, and financial management. MFI's Management should give key attention to risk assessments as it is critical in supporting performance of MFIs in Kabale Municipality.

From research findings, it was learnt that communication had an insignificant effect on performance of microfinance institutions in Kabale Municipality. Therefore, the study concluded that communication element of ICS in MFIs in Kabale Municipality does not necessarily explain variations in their performance.

From the study, it was learnt that control environment had an insignificant effect on performance of microfinance institutions in Kabale Municipality. Therefore, the study concluded that intervention needs to spearhead on issues pertaining to control environment so as to enhance performance.

Basing on research findings, it was learnt that monitoring of activities had an insignificant effect on performance of microfinance institutions in Kabale Municipality. Therefore, monitoring activities done should be utilised to support other operations; not necessarily to boost the performance of MFIs in Kabale Municipality.

6.4 Recommendations

Risk assessment was found to have a significant effect on performance of MFIs in Kabale Municipality. The study therefore recommends that microfinance institutions in Kabale Municipality need to embrace risk assessments so as to grow their performance base in terms of liquidity, asset accumulation, portfolio quality, and financial management. This can be done by ensuring that there are mechanisms in place to identify and react to changes that can

have an effect on performance with given MFIs. It could also be done by putting in place a reporting mechanism that is less risky for the given MFIs. Also, MFIs should make sure risks are assessed in relation to changes in the operational environment. It is also imperative that MFIs hire competent and knowledgeable personnel.

Control of the environment was found to have an insignificant effect on performance of MFIs in Kabale Municipality. Therefore, MFIs need to embrace appropriate environmental control systems and strategies. This can be done by ensuring that corrective action is taken to address weaknesses. It could also be done by making sure that security system identified safeguard institutional assets. Staff should also be made aware of penalties for breaking internal control procedures. It is also necessary for MFIs to ensure that policies and procedures are clear and they are updated and revised on timely basis. Additionally, there should be appropriate supervision by senior staff on the work being undertaken juniors.

Communication was found to have an insignificant effect on performance of MFIs in Kabale Municipality. The study therefore recommends that microfinance institutions in Kabale Municipality need to embrace appropriate communication systems and strategies. This can be done by ensuring that managers do a good job of sharing information; and there should be a clear channel of information flow within the MFI. It is also important that management within the MFI produces reports containing operational, financial and compliance-related information to support their daily operations.

6.5 Areas for further research

This study specifically explored (control environment, risk assessment, communications and monitoring activities) elements of internal control systems, yet ICS has five elements. Therefore, future researchers should address the remaining elements (control activities, and internal audit), which seem to have a high influence compared to the ones studied. Generally other factors influencing performance of MFIs, other than the internal control systems should be studied.

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APPENDICES

APPENDIX I: PARTICIPANTS' LETTER OF CONSENT

Kabale University
P.o. Box 317
Kabale- Uganda
Email: info@kab.ac.ug
www.kab.ac.ug

September 05, 2021

Dear respondent,

Seeking your consent to participate in the Study

Greetings!

I am writing to seek your consent to be part of this study. I am a student pursuing a Master of Business Administration Degree at Kabale University. As part of the requirement for this award, I am undertaking a study on the topic, **“The relationship between internal control systems and performance of microfinance institutions of Kabale Municipality”**. As an employee at this council, you have been selected to participate by providing your opinions through answering the questions in the questionnaire below attached.

Please feel at ease to give your true opinion as this is just an academic study and your responses will be treated for that purpose. Your views will be treated with great confidentiality, unanimous and in case of need for the outcome of this research you can contact me on Telephone. If you are willing to be part of this study, please sign the tear off portion below, and return it to the researcher/ or the bearer.

Thank you for your cooperation in this matter in advance.

Sincerely,
Nandaula Mwebe Lilian
Student/Researcher

.....Tear off portion.....

I agree..... Signature

and will be available on.....Day/Time.....

APPENDIX II

QUESTIONNAIRE FOR RESPONDENTS IN THE MICROFINANCE INSTITUTIONS

Dear Sir/Madam

I am **Nandaula Mwebe Lilian**, Reg No. 2019/A/MBA/006/W, a student of Kabale University pursuing a Master of Business Administration. As part of the requirements for this award, I am undertaking a study on the relationship between internal control systems and performance of microfinance institutions of Kabale Municipality. In relation to their study, I am contacting you for relevant information about the topic. Your responses/information will be treated with great confidentiality and used for this study purposes.

Section A: Bio-data about the Respondents

1. Gender Male ☐ Female ☐

2. Level of Education

Certificate ☐ Diploma ☐ Degree ☐ Masters ☐

Other (Specify).....

3. Age bracket

18-35 Years ☐ 35-60 Years ☐ Above 60 years ☐

4. Number of Years spent with the MFI

Less Than One Year ☐ 1-5 Years ☐
6-10 Years ☐ 10 Years and above ☐

For sections B to E use scale below to give the extent to which you agree or disagree to the information provided in Table. Rating scale. *1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree*

SECTION B: Control Environment

N/S	Item	1	2	3	4	5
B1	In this MFI, staff are given up to date internal control manuals for reference purposes					
B2	Staff are aware of the penalties for breaking internal control procedures					
B3	Our institution has clear separation of roles					
B4	There is appropriate supervision by senior staff on the work of their juniors					
B5	In this MFI, policies and procedures are clear and they are issued, updated and revised on timely basis					
B6	Our security system identifies and safeguard institutional assets					
B7	Corrective action is taken to address weaknesses					

B8. How has control environment affected performance of microfinance institutions in this municipality?

.....
.....

SECTION C: Risk Assessment

N/S	Item	1	2	3	4	5
C1	In this MFI, risks are assessed in relation to changes in the operational environment					
C2	The reporting mechanism in this place is less risky for this MFI					
C3	In this MFI, all risks are measured					
C4	This MFI is strict in identifying risks					
C5	This MFI has competent and knowledgeable personnel					
C6	There are mechanisms in place to identify and react to changes that can have an effect on performance of this MFI					
C7	Services of this MFI possess less risk					

C8. In your opinion, in which ways have risk assessment affected performance of microfinance institutions?

.....
.....
.....

SECTION D: Monitoring

N/S	Item	1	2	3	4	5
D1	Separation of duties exists between departments of this organisation					
D2	There is a clear reporting mechanism for all activities of this branch					
D3	In this MFI, segregation of duties exists within transaction processing and authorization custody					
D4	This institution's projects are monitored and reported as required of the monitoring criteria					
D5	Monitoring strategies are used at any time during monitoring process					
D6	Quality assurance is adhered to for all projects of the branch					
D7	External auditors rely on the work of internal auditors while auditing					

D8. In your opinion, describe how has monitoring affected performance of microfinance institutions in Kabale Municipality?

.....
.....

SECTION E: Information and Communication

N/S	Item	1	2	3	4	5
E1	Information and communication is encouraged in this institution					
E2	Information and knowledge is shared openly within this organisation					
E3	Senior management communicate well with the rest of the organisation					
E4	Information systems in this MFI produce reports containing operational, financial and compliance-related information					
E5	There is a clear channel of information flow in this MFI					
E6	Information and communication is done in appropriate way					
E7	Manager does a good job of sharing information					

E8. In your opinion, describe how has information and communication affected performance of this microfinance institution?

.....
.....

Section F: Performance of microfinance institutions

	Item	1	2	3	4	5
F1	This MFI has a high rate of profitability					
F2	Liquidity in this MFI has been good					
F3	This MFI has accumulated assets for future expansion					
F4	This MFI meets all its short and long term financial obligations whenever they are due					
F5	All transactions by this MFI is well reported to stakeholders					
F6	This MFI meets its budgets estimates for all user departments					
F7	Financial reports are prepared in time					
F8	There is increased sales volume in this MFI					
F9	There are reports of financial mismanagement in some departments					
F10	The institution employs chartered certified financial managers.					
F11	The financial statements are regularly audited by an independent auditor					
F12	Robust financial management practices are associated with better loan performance of MFIs.					
F13	Does the level of portfolio quality of this MFI determine its performance?					
F14	Portfolio quality is related to credit risk management					
F15	Portfolio quality improves with good/better credit risk management measures					

End

Thank you for your time

APPENDIX III: INTERVIEW GUIDE FOR HEAD OF DEPARTMENTS

Venue of interview.....

Name of the department:.....

Part 1: Introductions

Topic: The relationship between internal control systems and performance of microfinance institutions of Kabale Municipality.

The purpose of the interview is to gather views on internal control systems and performance of microfinance institutions of Kabale Municipality. In the following interview, please respond truthfully as you can.

The respondent introduces him/herself, (give details of biodata, and experience)

Part 2: Specific Questions

Part 1: Control Environment and Performance of Microfinance Institutions

1. Do you think there is clear separation of roles in this MFI?
2. In your opinion, do you think there is appropriate supervision by senior staff on the work of their juniors?
3. In what ways have control environment at this MFI affected its financial performance?

Part 2: Risk Assessment and Performance of Microfinance Institutions

4. What are different of assessing risks in this MFI?
5. Do you think this MFI is strict in identifying risks?
6. How has risk assessment affected financial performance of this MFI?

Part 3: Monitoring and Performance of MFIs

7. Do you agree that separation of duties exists between departments of this organisation?
8. Do you think monitoring strategies are used at any time during monitoring process?
9. In which way, has monitoring affected performance of this MFI?

Part 4: Information and Communication and Performance of MFIs

10. Information and communication is encouraged in this institution. Do you agree?
11. Do you think there is there is a clear channel of information flow in this MFI?
12. How has communication affected performance of MFIs?

“I Thank You”

APPENDIX IV: STUDY INTRODUCTION LETTER

KABALE

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DIRECTORATE OF POSTGRADUATE TRAINING

October 8th, 2021

To whom it may concern

This is to certify that *Ms. Nandaula Mwebe Lilian* Reg. No. 2019/A/MBA/006/W is a postgraduate student of Kabale University studying for a *Masters Degree of Business Administration* in the department of *Business Studies*.

She has successfully defended her Research Proposal for a study entitled,

"Internal control systems and performance of Microfinance Institutions in Uganda. A case study of Kabale Municipality"

The student is now ready for field work to collect data for her study. Please give the student any assistance you can to enable her accomplish the task.

Thanking you for your assistance,

Yours sincerely,


Dr. Sekiwu D. [Signature]
DIRECTOR, POSTGRADUATE TRAINING